HEALTH SERVICES AND DEVELOPMENT AGENCY MEETING
DECEMBER 14, 2016
APPLICATION SUMMARY

NAME OF PROJECT:	Keystone Memphis LLC d/b/a Compass Intervention Center
PROJECT NUMBER:	CN1606-025
ADDRESS:	7900 Lowrance Road Memphis (Shelby County), TN 38125
LEGAL OWNER:	Keystone Memphis LLC 7900 Lowrance Road Memphis (Shelby County), TN 38125
OPERATING ENTITY:	UHS of Delaware, Inc. 367 South Gulph Road King of Prussia, PA 19406
CONTACT PERSON:	Byron Trauger (615) 256-8585
DATE FILED:	June 15, 2016
PROJECT COST:	$12,152,661.00
FINANCING:	Combination of Cash Reserves and Revolving Credit
REASON FOR FILING:	Establishment of a new 48 bed mental health hospital and initiation of inpatient child and adolescent psychiatric services

DESCRIPTION:

Keystone Memphis LLC d/b/a Compass Intervention Center is seeking approval for the establishment of a new 48 bed mental health hospital and initiation of psychiatric services for children and adolescents up to age 18. The proposed mental health hospital will consist of 48 inpatient beds for psychiatric care: 24 inpatient beds for children up to age 13 and 24 inpatient beds for adolescents ages 13-17. The proposed project will accept voluntary and/or

involuntary admissions. If approved, the applicant plans to initiate service in May 2018.

SERVICE SPECIFIC CRITERIA AND STANDARD REVIEW:

Psychiatric Inpatient Services

A. Need

1. The population-based estimate of the total need for psychiatric inpatient services is 30 beds per 100,000 general population (using population estimates prepared by the Department of Health and applying the data in Joint Annual Reports).

   Using the population estimates prepared by the Department of Health, the Guidelines for Growth Bed Need Formula calculate the following total bed need for inpatient psychiatric services:

   2016 Population:
   0-17 390,736 X 30 beds/100,000 = 117.22 Beds

   2020 Population:
   0-17 395,172 X 30 beds/100,000 = 118.53 Beds

2. For adult programs, the age group of 18 years and older should be used in calculating the estimated total number of beds needed.

   Not applicable.

3. For child inpatient under age 13, and if adolescent program the age group of 13-17 should be used.

   2020 Population:
   Ages 0-12 278,608 X 30 beds/100,000= 83.58 beds
   Age 13-17 116,564 X 30 beds/100,000 = 34.96 Beds

4. These estimates for total need should be adjusted by the existent staffed beds operating in the area as counted by the Department of Health in the Joint Annual Report.

According to the bed need formula, 117.22 beds are needed in 2016 and 118.53 will be needed in 2020. In 2014, 90 child/adolescent beds were actually licensed and operating in the service area. The bed need formula also takes into consideration the following:

- *Crestwyn Behavioral Health a 60 bed licensed mental health hospital located in Memphis (Shelby County), TN opened a 15 bed adolescent unit for ages 13-17 on April 29, 2016, and*

- *On July 11, 2016 Lakeside Behavioral Health* notified the Agency licensed beds would increase from 261 beds to 287 beds an increase of 26 beds, under the provisions of Public Chapter 1043. The Lakeside expansion would include an additional 6 child/adolescent beds.*

****Note to Agency members: TCA 68-11-1607(g) permitted a hospital with fewer than 100 beds to increase its total number of licensed beds by ten beds over any one year period without obtaining a Certificate of Need. As of July, 1 2016 PC 1043 deleted and replaced the provision with TCA 68-11-1607 (g) (1-3) that allows any hospital, rehabilitation facility, or mental health hospital to increase its licensed bed complement by category by campus by 10% over a 3 year period without obtaining a CON.***

The 2020 child/adolescent net bed need for the applicant's 19 county service area equates to 7.23 beds.

The applicant also included Desoto County, Mississippi and Crittenden County Arkansas in their primary service area. In supplemental #1, the applicant indicated Parkwood Hospital located in Desoto County, Mississippi operates a 22 bed child and adolescent psychiatric unit, and in Crittenden County, Arkansas, Oak Ridge Hospital operates a 24 bed child and adolescent psychiatric unit.

It would appear the application does <u>not</u> meet this criterion.

Note to Agency members: The Tennessee Department of Mental Health and Substance Abuse Services (TDMHSAS) staff report for this application stated the following regarding the inpatient need formula: "Tennessee's Health Guidelines for Growth sets the population-based estimate for the total need for psychiatric inpatient services at 30 beds per 100,000 general population. These

Guidelines do not further stratify those numbers for special populations or age groups. The application of the formula sometimes results in an underestimation of the number of inpatient psychiatric beds needed due to a number of factors: bed utilization, willingness of the provider to accept emergency involuntary admission, the extent to which the provider serves the TennCare population and/or the indigent population, the number of beds designated as "specialty" beds or beds designated for specific diagnostic categories. These factors impact the availability of beds for the general population as well as for specialty populations, depending on how the beds are distributed. Other influencing factors include the number of existing beds in the proposed service area, bed utilization and support for community services for people to increase family involvement, utilization of the person's community support system and access to aftercare." Source: TDMHSAS Review of Keystone Memphis LLC d/b/a Compass Intervention Center, CN1606-025

B. Service Area

1. The geographic service area should be reasonable and based on an optimal balance between population density and service proximity or the Community Service Agency.

The primary service area includes 19 counties in Tennessee and includes Desoto County Mississippi and Crittenden County Arkansas.

It would appear the application meets this criterion.

2. The relationship of the socio-demographics of the service area, and the projected population to receive services, should be considered. The proposal's sensitivity to and responsiveness to the special needs of the service area should be considered including accessibility to consumers, particularly women, racial and ethnic minorities, low income groups, and those needing services involuntarily.

The applicant intends to meet the psychiatric needs of poor, low-income, and underserved families. The applicant is located in Southeast Memphis in a primarily African American neighborhood that the applicant states is underserved in terms of mental health services. In addition, involuntary admissions will be accepted.

It would appear the application meets this criterion.

C. Relationship to Existing Applicable Plans

1. The proposal's relationship to policy as formulated in state, city, county, and/or regional plans and other documents should be a significant consideration.

   There are no identified state, city, county or regional planning documents provided by the Tennessee Department of Mental Health and Substance Abuse Services. The applicant references the goals of State Health Plan relative to healthy lives, access, economic efficiencies, quality of care, and workforce.

   It would appear the application meets this criterion.

2. The proposal's relationship to underserved geographic areas and underserved population groups as identified in state, city, county and/or regional plans and other documents should be a significant consideration.

   Every county in the service area is medically underserved in the mental health category, with Shelby County being underserved in the low-income category.

   It would appear the application meets this criterion.

3. The impact of the proposal on similar services supported by state appropriations should be assessed and considered.

   There are two (2) State operated inpatient adult psychiatric hospitals in the proposed service area but do not accept child and adolescent patients.

   This criterion does not apply to this application.

4. The proposal's relationship to whether or not the facility takes voluntary and/or involuntary admissions, and whether the facility serves acute and/or long-term patients, should be assessed and considered.

   The applicant will accept involuntary admissions.

   It would appear the application meets this criterion.

5. The degree of projected financial participation in the Medicare and TennCare programs should be considered.

The applicant plans to contract with all area TennCare managed care organizations. Since this proposed hospital will serve the population 0-17, the applicant does not expect any participation in Medicare.

It would appear the application meets this criterion.

D. Relationship to Existing Similar Services in the Area

1. The area's trends in occupancy and utilization of similar services should be considered.

The psychiatric bed days for the 19 county Tennessee service area increased from 20,428 days in 2012 to 21,748 days in 2015, an increase of 6.5%. The occupancy for the proposed service area in 2012 was 62.0%, 62.1% in 2013, 61.3% in 2014, and 66.2% in 2015 on 90 licensed beds.

It would appear the application meets this criterion.

2. Accessibility to specific special need groups should be an important factor.

Charity care will account approximately 1.5% of total gross revenue in Year Three equaling $210,813 (105.2 days) charity care days.

It would appear the application meets this criterion.

E. Feasibility

The ability of the applicant to meet Tennessee Department of Mental Health and Substance Abuse Services (DMHSAS) licensure requirements (related to personnel and staffing for psychiatric inpatient facilities) should be considered.

The applicant is aware and understands the licensing and certification as required by the State of Tennessee for medical and clinical staff.

It appears the application meets this criterion.

STAFF SUMMARY

Note to Agency members: This staff summary is a synopsis of the original application and supplemental responses submitted by the applicant. Any HSDA Staff comments will be presented as a "Note to Agency members" in bold italic.

Application Synopsis

Compass Intervention Center, proposes to establish a new 48-bed child and adolescent mental health hospital in Memphis (Shelby County), Tennessee next to their existing 108 bed residential treatment facility for children and adolescents with serious behavioral health and addiction disorders. The 48 bed mental health hospital will provide one 24 bed child psychiatric inpatient unit and one 24 bed adolescent psychiatric inpatient unit both consisting of semi-private beds. If approved, the 48 bed inpatient child and adolescent psychiatric inpatient service will complement the existing Compass Intervention Center service lines of child and adolescent residential, partial hospitalization, and intensive outpatient services.

The project will also include building space for future growth of outpatient services, 25 additional parking spaces, renovation and expansion of dietary services, creation of additional outdoor patient areas, and the construction of a new gymnasium.

Note to Agency Members: If approved, Keystone Memphis LLC d/b/a Compass Intervention Center would not be designated as an Institution of Mental Diseases. The IMD designation only applies to institutions that provide services to persons ages 21-64. The applicant proposes to treat patients from the ages 0-17. The federal matching funds exclusion was narrowed in 1972 when an exception was established for individuals under age 21. An Institution for Mental Diseases (IMD) is currently defined as "a hospital, nursing facility or other institution of more than 16-beds that is primarily engaged in providing diagnosis, treatment or care of persons with mental diseases, including medical attention, nursing care and related services" (42 C.F.R. §435.1010). Medicaid funding is not available to, or for the benefit of, Medicaid beneficiaries living in facilities that have been determined to be IMDs. In 1988, Congress defined an IMD as a facility with more than 16 beds. While the Affordable Care Act will expand mental health coverage, it does not eliminate the IMD exclusion.

Facility Information

- Compass Intervention Center proposes the construction of a 26,900 SF unit consisting of two patient wings consisting of 24 semi-private beds each.
- Each of the two units will have group therapy and activity spaces, exam, consultation, and treatment areas.
- The proposed facility will have 1,000 SF of shell space for the future growth of outpatient programs.
- The proposed project will include a 2,850 SF activity therapy/gymnasium and 2,250 SF expansion/renovation of existing dining room areas.
- A 1,331 SF connector corridor will be constructed to the applicant's existing 30,000 SF 108 bed Residential Treatment Facility.

Ownership

- Keystone Memphis LLC, d/b/a Compass Intervention Center is an active Tennessee limited liability company formed on September 14, 2000.
- Keystone Memphis LLC's ultimate parent company is Universal Health Services, Inc. which is the largest facility based provider in the United States operating 216 behavioral health facilities in the US and United Kingdom.

NEED

Project Need

The applicant provides the following justification in the original application:

- During the 1st quarter of 2016 Lakeside Hospital (Shelby County) had to deflect at least 153 child and adolescent patients due to capacity. During March 2016 alone, St. Francis Hospital (Shelby County) reported deflecting over 100 psychiatric patients.
- When Lakeside Hospital and St. Francis Hospital are full, children in need of services may wait in emergency rooms, experience difficulty and delays in placements, or are placed into less-than-ideal safety plans.
- Inpatient psychiatric utilization in the proposed service area increased 6.5% from 20,428 patient days in 2012 to 21,748 patient days in 2015.
- Some patients are placed in inpatient psychiatric hospitals in Mississippi and Kentucky due to capacity issues.

Service Area Demographics

The declared primary service area is Shelby, Madison, Tipton, Fayette, Hardeman, Lauderdale, Dyer, McNairy, Chester, Hardin, Crockett, Haywood, Gibson, Lake, Obion, Weakley, Carroll, Henry, and Henderson Counties. The

primary service area also includes Desoto County Mississippi, and Crittenden County Arkansas.

Total Population

- The total population of the service area is estimated at 1,593,638 residents in calendar year 2016 increasing by approximately 2.4% to 1,631,641 residents in CY 2020.
- The total population of the state of Tennessee is expected to grow 4.3% during the same timeframe.
- The latest 2016 percentage of the Tennessee proposed service area population enrolled in the TennCare program is approximately 22.2%, as compared to the statewide enrollment proportion of 22.8%.

0-17 Population

- The total 0-17 population is estimated at 390,736 residents in 2016 increasing approximately 1.1% to 395,172 residents in 2020.
- The age 0-17 population in the State of Tennessee overall is expected to increase 2.8% during the same timeframe.

Source: The University of Tennessee Center for Business and Economic Research Population Projection Data Files, Reassembled by the Tennessee Department of Health, Division of Policy, Planning and Assessment, Office of Health Statistics.

Service Area Historical Utilization

Service Area Historical Utilization
Regional Area Mental Health Hospital Child and Adolescent Inpatient

Facility	County	2015 Licensed Beds	Patient Days					Licensed Occupancy			
			2012	2013	2014	2015	% Change 2012-2015	2012	2013	2014	2015
Lakeside	Shelby	55	13,315	14,205	13,794	*15,248	+14.5%	66.3%	70.7%	68.7%	76%
St. Francis	Shelby	35	7,113	6,200	6,359	6,500	-8.6%	55.5%	48.5%	49.7%	50.8%
Total		**90**	**20,428**	**20,405**	**20,153**	**21,748**	**+6.5%**	**62.0%**	**62.1%**	**61.3%**	**66.2%**

Source: CN1606-025, Supplemental #1.
Tennessee Department of Health, Joint Annual Reports - 2012, 2013, 2014, and 2015
**Figure from Page 25 Lakeside Hospital 2015 JAR.*

- The above chart indicates child and adolescent inpatient psychiatric utilization in the proposed service area increased 6.5% from 20,428 patient days in 2012 to 21,748 patient days in 2015.
- Lakeside inpatient psychiatric utilization increased 14.5% from 13,315 patient days in 2012 to 15,248 patient days in 2015.
- St. Francis experienced a decrease in psychiatric patient days from 7,113 patient days in 2012, to 6,500 patient days in 2015, or -8.6%.

Applicant Projected Utilization
The applicant's projected utilization for the first two years after project completion is presented in the following table:

Beds	Year 1 Admits	Year 1 Pt. Days	Year 1 ADC	Year 1 % Occ.	Year 2 Admits	Year 2 Pt. Days	Year 2 ALOS	Year 2 % Occ.
48	478	3,356	9.2	19.2%	688	4,816	13.2	27.5%

ECONOMIC FEASIBILITY

Project Cost
Major costs are:

- Construction Cost plus contingency- $8,782,033, or 72.3% of cost.
- Architectural and Engineering Fees-$844,500, or 6.9% of cost.
- Moveable Equipment-$827,135, or 6.8% of cost.
- For other details on Project Cost, see the Project Cost on page 31.

Financing
A June 10, 2016 letter from UHS of Delaware, Inc., Vice-President and Treasurer, confirms that Universal Health Services (the parent company of Keystone Memphis, LLC) has the necessary financial resources to fund the proposed project with a combination of cash and revolving credit in the amount of $461,000,000.

Universal Health Services, Inc.'s financial statements filed with the U.S. Securities and Exchange Commission for the period ending December 31, 2015 indicates $61,228,000 in cash, total current assets of $1,718,304,000, total current liabilities of $1,100,406,000, and a current ratio of 1.56:1.

Note to Agency members: Current ratio is a measure of liquidity and is the ratio of current assets to current liabilities which measures the ability of an entity to cover its current liabilities with its existing current assets. A ratio of 1:1 would be required to have the minimum amount of assets needed to cover current liabilities.

Historical Data Chart

- Keystone Memphis LLC provided a Historical Data Chart for its residential treatment center.
- According to the Historical Data Chart, Compass Intervention Center experienced profitable net operating income results for the three most

recent years reported: $1,891,064 for 2013; $1,090,019 for 2014; and $1,322,714 for 2015.

- Average Annual Net Operating Income less capital expenditures (NOI) was favorable at approximately 10.6% of annual net operating revenue for the year 2015.

Projected Data Chart

The applicant projects $6,802,625 in total gross revenue on 3,356 days during the first year of operation, $9,726,400 on 4,816 days in Year Two (approximately $2,019 per day), and $14,035,158 on 7,006 days in Year Three. The Projected Data Chart reflects the following:

- Net operating income less capital expenditures for the applicant will equal ($1,178,567) in Year One, ($295,864) in Year Two, increasing to $641,727 in Year Three.
- Net operating revenue after contractual adjustments is expected to reach $4,838,627 or approximately 34.5% of total gross revenue in Year Three.
- In supplemental #1, the applicant states management fees are not included in the Projected Data Chart because the proposed project will not impact management fees because the organization's management fee is a variable fee. The number of facilities and the total cost allocated change each year, and are not included in the Management/Operating Agreement.
- Charity care totals $210,813 in Year Three, equaling 105.2 charity care days.

Charges

In Year One of the proposed project, the average charges are as follows:

- The proposed average gross charge is $2,027/day in 2018.
- The average deduction is $1,505/day, producing an average charge of $522/day.

Medicare/TennCare Payor Mix

Payor Source	Gross Revenue	As a % of Total
Medicare	0	0%
Tenncare/Medicaid	$2,756,082	40.5%
Commercial	$2,820,418	41.5%
Uncompensated	0	0%
Other	$1,226,125	18%
Total Gross Revenue	$6,802,625	100%

Source: CN1606-025, Supplemental #1.

- TennCare- Charges will equal $2,756,082 in Year One representing 40.5% of total gross revenue.
- Medicare-The applicant expects no participation in Medicare and limited medically indigent patients since this proposal will serve only children and adolescents.

PROVIDE HEALTHCARE THAT MEETS APPROPRIATE QUALITY STANDARDS

Licensure

- If approved, Compass Intervention Center's inpatient child and adolescent psychiatric and substance abuse service will be licensed by the Tennessee Department of Mental Health and Substance Abuse Services.
- A letter dated November 30, 2015 from the Department of Mental Health and Substance Abuse Services indicates Keystone Memphis, LLC is fully licensed as a Mental Health and Alcohol and Drug Residential Treatment Center for Children and Youth. A copy of the most recent survey conducted by the Department of Mental Health and Substance Abuse Services on October 5, 2015 is included in the application.

Certification

- The applicant is certified by Medicare and Medicaid.

Accreditation

- Compass Intervention Center will seek accreditation from The Joint Commission.

CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTHCARE

Agreements

- The applicant has a transfer agreement with St. Francis Hospital

The applicant has contractual agreements with major insurers in the service area to include Aetna, Blue Cross Blue Shield of Tennessee, and CIGNA,

The applicant has contractual relationships with all the TennCare MCOs in the service area including AmeriGroup, BlueCare, and United Healthcare.

Impact on Existing Providers

- The applicant notes that there are similar services in the service area, but with a need for additional beds there is no foreseeable measurable negative impact on existing providers.
- Utilization projections are based on admissions generated internally and take into account the steady growth of hospital utilization in the region.

Staffing

The applicant's proposed direct patient care staffing in Year Two includes the following:

- 2.0 Nursing Administration
- 7.0 Registered Nurses
- 8.4 Nursing (Tech)
- 1.4 Activity Therapist
- 2.0 Social Work
- 20.80 Total FTE's

The applicant has submitted the required information on corporate documentation and title and deeds. Staff will have a copy of these documents available for member reference at the meeting. Copies are also available for review at the Health Services and Development Agency's office.

Should the Agency vote to approve this project, the CON would expire in three years.

CERTIFICATE OF NEED INFORMATION FOR THE APPLICANT:

There are no other Letters of Intent, denied or pending applications, or outstanding Certificates of Need for this applicant.

Note: Universal Health Services (UHS) Inc. has a financial interest in this project and the following:

Lakeside Behavioral Health System, CN1505-019A, has an outstanding Certificate of Need that will expire on October 1, 2018. The project was approved at the August 26, 2015 Agency meeting for the construction of a new 24,205 SF 48 semi-private bed geriatric building on the northeast section of the hospital's existing 37 acre campus located at 2911 Brunswick Road, Memphis (Shelby County), TN. The new building will replace the 31 bed geriatric unit and the 17 bed geriatric overflow wing located on the hospital's adult west wing which are both located on the same campus. **The estimated project cost is $9,393,796.** *Project Status: An Annual Progress Report sent August 4, 2016 by a project representative indicated all interior framing is complete. Drywall is 60% complete. Substantial completion is projected for November 29, 2016, and December 13, 2016 is the projected date for patents to be moved to the new building.*

CERTIFICATE OF NEED INFORMATION FOR OTHER FACILITIES IN THE SERVICE AREA:

There are no Letters of Intent, denied or pending applications, for other health care organizations in the service area proposing this type of service.

Outstanding Certificates of Need

Crestwyn Behavioral Health, CN1310-040A, has an outstanding Certificate of Need that will expire on June 1, 2017. The project was approved at the April 23, 2014 Agency meeting for the establishment of a 60 bed joint venture mental health psychiatric hospital located on an unaddressed tract of land on the east side of Crestwyn Hills Drive, approximately 0.2 miles south of the intersection of Crestwyn Hills Drive and Winchester Road in Germantown. The beds will be designated in the following manner: 15 beds will be dedicated to psychiatric care for adolescents, 30 for adults of all ages, and 15 for adult chemical dependency care. The joint venture partners include Acadia Healthcare, Delta Medical Center, and Saint Francis Hospital. A total of 60 existing psychiatric beds will be de-licensed by Delta Medical Center (20) and Saint Francis Hospital (40). The estimated project cost is **$26,875,862.00**. *Project Status: The facility was licensed by*

the Tennessee Department of Mental Health and Substance Abuse Services effective April 29, 2016. A final project report is pending.

PLEASE REFER TO THE REPORT BY THE DEPARTMENT OF MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES FOR A DETAILED ANALYSIS OF THE STATUTORY CRITERIA OF NEED, ECONOMIC FEASIBILITY, HEALTH CARE THAT MEETS APPROPRIATE QUALITY STANDARDS, AND CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTH CARE IN THE AREA FOR THIS PROJECT. THAT REPORT IS ATTACHED TO THIS SUMMARY IMMEDIATELY FOLLOWING THE COLOR DIVIDER PAGE.

PME (11/30/16)

CERTIFICATE OF NEED REVIEW
CN1606-025

12/1/2016 Revision

Keystone Memphis, LLC
d/b/a Compass Intervention Center
7900 Lowrance Road
Memphis, TN 38125

The Department of Mental Health and Substance Abuse Services staff has reviewed the application for a Certificate of Need (CON) submitted by Compass Intervention Center (Compass) for the construction of a 48 bed inpatient mental health hospital for children and adolescents up to age 18 in Memphis, Tennessee. In accordance with Rules of the Tennessee Health Services Development Agency, the Department's analysis consists of the following components: Need; Economic Feasibility; and Contribution to the Orderly Development of Health Care. Effective July, 2016, new statute added a fourth component: Healthcare that Meets Appropriate Quality Standards.

This review and analysis has three (3) parts:

- Scope of Project
- Analysis of Need, Economic Feasibility, Appropriate Quality Standards and Contribution to the Orderly Development of Health Care
- Conclusions

1. SCOPE OF PROJECT

The Compass Intervention Center proposes to construct a 48 bed child and adolescent inpatient psychiatric facility with additional patient support space at their current location of 7900 Lowrance Road, Memphis, (Shelby County) TN 38125. The space will also allow for future growth of outpatient services, 25 additional parking spaces in the northeast section of the property, the renovation and expansion of dietary services, creation of additional outdoor patient areas, and the construction of a new gymnasium. The proposal does not contain major medical equipment.

Compass currently provides 30 residential beds for child and adolescent chemical dependency services and 78 licensed mental health residential beds (62 are staffed) and provides outpatient and partial hospitalization mental health services. All current beds and services are licensed by TDMHSAS. None of these services are subject to this Certificate of Need review.

The estimated project cost is $12,152,661. Funding for this project will be provided by cash reserves or credit, or a combination of both, by the parent company, Universal Health Services, Inc.

Compass proposes primarily to serve 19 Tennessee counties with a secondary service area of 9 counties in Arkansas (Craighead, Cross, Greene, Jackson, Lee, Mississippi, Poinsett, St. Francis, Woodruff) and one county in Mississippi (DeSota), all within a 120 mile radius and 2 hour travel time of Compass. The service area is based on proximity to Compass, their existing mobile assessment services and historical referral relationships.

If approved in CY 2016, Compass expects to initiate services in May, 2018.

2. ANALYSIS

A. Need

Tennessee's Health Guidelines for Growth sets the population-based estimate for the total need for psychiatric inpatient services at 30 beds per 100,000 general population. These Guidelines do not further stratify those numbers for special populations or age groups. The application of the formula sometimes results in an underestimation of the number of inpatient psychiatric beds needed due to a number of factors: bed utilization, willingness of the provider to accept emergency involuntary admission, the extent to which the provider serves the TennCare population and/or the indigent population, the number of beds designated as "specialty" beds or beds designated for specific diagnostic categories. These factors impact the availability of beds for the general population as well as for specialty populations, depending on how the beds are distributed. Other influencing factors include the number of existing beds in the proposed service area, bed utilization and support for community services for people to increase family involvement, utilization of the person's community support system and access to aftercare.

For the analysis for this Application, the JAR's definition of staffed beds is used: the total number of pediatric beds set up, staffed and in use at the end of the reporting period. This number should be less-than or equal-to the number of licensed beds.

Existing Beds: The Applicant indicated that there are 90 existing child and adolescent (youth) psychiatric inpatient beds in their Tennessee service area (Supplemental #1). Based on population, the Applicant finds a bed need for 119 beds for ages 0-17 in the proposed service area in 2020.

Population and Need: Population data for 0-17 years of age for 2016 and 2020 for the counties in the proposed service area can be found in Appendix A. Current bed supply is in Chart 1.

Using the service area population data in Chart 2, we find the **Tennessee 2016** 0-17 years of age population to be 390,736 with a bed need of 117 and a supply of 111 beds. For this report, the bed supply has been updated to include 2016 staffed beds at Lakeside, 61 (with the July addition of 6 beds), 35 at St. Francis and 15 newly opened beds at Crestwyn. With the **2020** projected **Tennessee** service area population of 395,172, an increase of 4,436, the bed need would be 119.

This data appears to recognize the population-based 2016 **Tennessee** unmet need of 6 beds. Barring the addition of other beds, in 2020, there would be a population-based undersupply of 2 additional beds in the **Tennessee** service area.

Other Counties in the Service Area

The 0-17 years of age 2016 population of the Mississippi (DeSoto) and Arkansas counties (Crittenden, Craighead, Cross, Greene, Jackson, Lee, Mississippi, Poinsett, St. Francis, Woodruff) in the proposed service area is 140,460. There is a supply of 90 beds and a bed need of 42 using Tennessee's Guidelines for Growth formula of 30 beds per 100,000. The Arkansas and Mississippi service area projected 2020 population is 143,665, an increase of 3,205 youth, and a bed need of 43. In Mississippi, a total of 74 child and adolescent beds are available at two hospitals: Mississippi State Hospital (beds are available to county but not located in the county) with 22 child and adolescent beds and Parkwood with 52 beds. In Arkansas, 16 beds are available at the Arkansas State Hospital in Little Rock. Note: the Applicant lists 24 inpatient child and adolescent beds in Crittenden County, Arkansas. However, this number was not added to the supply in this report since the Arkansas Department of Mental Health does not list them as a C&A provider.) (Charts 1 and 2)

Chart 1
Current Bed Supply 0-17

	Licensed Beds	ADC	Occupancy Rate
Mississippi			
Mississippi State Hospital	22	N/A	N/A
Parkwood Behavioral Health System	52	34.68	66.70
Arkansas			
Arkansas State Hospital	16	16	100%
Tennessee			
St. Francis	35 (Ages 4-17)		50%
Lakeside	61*		92% (2014 total)
Crestwyn	15 (Ages 13-17)		100% (2016 C&A only)
Total	**201**		

*6 additional beds approved by HSDA and licensed in July, 2016.

Sources: 2014 Report on Hospitals Licensed by Mississippi State Department of Health, Division of Health Facilities Licensure and Certification; Arkansas Department of Mental Health; 2014 JAR; HSDA

Bed Supply and Need (Chart 2)

The existing bed supply for 0-17 years of age for the Applicant's entire primary service area is 201 beds; the current bed need is 160 (117 (Tennessee) + 43 (MS and

AR counties). Using the projected 2020 Tennessee and the identified out of state population, 538,837, the bed need would be 162.

Chart 2 Population Based Supply & Need 0-17			
2016	**Population**	**Need**	**Supply**
Tennessee	390,736	117	111
Arkansas	85,454	26	16
Mississippi*	55,006	17	74*
TOTAL	**531,196**	**160**	**201**
2020			
Tennessee	395,172	119	
Arkansas	84,571	25	
Mississippi*	59,094	18	
TOTAL	**538,837**	**162**	

***Mississippi data reported for 2015 and 0-19 age range**

Sources: 2014 Report on Hospitals Licensed by Mississippi State Department of Health, Division of Health Facilities Licensure and Verification; Arkansas Department of Mental Health; 2014 JAR; HSDA

Using a population based bed need and the Tennessee Guidelines for Growth formula, there is a slight undersupply of beds in Tennessee, both currently and in 2020. Using the same formula for the entire proposed service area including Tennessee and the Arkansas and Mississippi counties, there is an oversupply of child and adolescent beds.

Other Needs Data

Lakeside, St. Francis and Crestwyn have the only inpatient children and adolescent beds in the Applicant's proposed Tennessee service area and their admissions cover the same service area. From the 2014 JAR report, Lakeside reported 13,794 patient days in the 0-17 age range (68% occupancy of licensed youth beds) and 58 youth 0-17 on September 30. St. Francis reported 6,359 patient days (50% licensed bed occupancy) with 23 youth 0-17 in the hospital on September 30, 2014. Crestwyn has recently started admitting adolescents to their 15 bed adolescent unit and on September 12, 2016 reported 16 adolescents. The Applicant also reports a combined occupancy of 61.3% on licensed beds for St. Francis and Lakeside (2014 JAR) and a combined licensed staffed bed rate of 93.3%.

The Applicant feels that demand for services is not met for several reasons (Supplemental #1):

- Lakeside and St. Francis are frequently full or unable to accept patients.
- Mobile Crisis Teams are not always able to locate a bed.
- Additional capacity of Crestwyn does not fully address population-based need, or the increased actual need for bed capacity. (application pre-dates addition of beds at Lakeside).

From the "Status of Suicide in Tennessee, 2014" report published by the Tennessee Suicide Prevention Network, suicide is the third leading cause of death for 10-19 year olds in 2014 in Tennessee. The suicide rate in the state is 5.8 per 100,000 population. The Applicant's area has the lowest suicide attempt hospitalization rate in the state. "Even though suicide rates are lower in this age group than others, even one young person lost to suicide is too many."

During FY 16, TDMHSAS reports that 822 youth under the age of 18 were admitted for hospitalization following assessment and referral by the state funded crisis teams in the Applicant's Tennessee service area. Whether these youth were admitted voluntarily or involuntarily is unknown. Facility availability for involuntary admissions is important but less critical for the 0-17 age range because parents can admit their children without going through the involuntary hospitalization process.

The Applicant reports 153 Lakeside turn aways or deferrals based on lack of capacity in the first three months of 2016. St. Francis reported deferring over 100 psychiatric patients in March 2016 alone. For the Shelby County/Memphis region, occupancy as a percentage of staffed beds is over 86%, supporting an indication for additional capacity.

Lack of bed capacity frequently means waits in emergency departments or diversion to less than ideal treatment situations. If resources are unavailable, some individuals are referred out of state for treatment (although hospitals in Tennessee are default referrals from other states as well). In FY 16, 86 custodial youth were referred out of state for non-acute residential treatment or psychiatric residential treatment; acute referrals are unknown. Other youth are managed in EDs, DCS offices, mental health community settings and sometimes merely put on a waiting list.

Compass projects completing over 1000 screening and assessments this year with about 8% resulting in inpatient services and would be a feeder source for inpatient services provided by Compass. Compass projects their internal need for beds to be an average census of 6.6 or 200 patient days upon opening.

B. Economic Feasibility

Ownership and Management

Keystone Memphis LLC, d/b/a Compass Intervention Center is directly and wholly owned by Keystone Education and Youth Services LLC, which is wholly owned by Keys Group Holdings LLC, which is wholly owned by UHS Children's Services, Inc. which is wholly owned by Universal Health Services, Inc.

Universal Health Services, Inc. and its subsidiaries operate 216 behavioral health facilities in 37 states, Washington, DC, Puerto Rico, the U.S. Virgin Islands and the United Kingdom. Universal Health Services, Inc. is the parent company for two other hospitals in Tennessee: Lakeside Behavioral Health System, Memphis and Rolling

Hills Hospital, Franklin. Both hospitals serve children and adolescents. Universal Health Services, Inc. also owns five (5) residential treatment facilities for youth in Tennessee: Cedar Grove Residential Treatment Center, Murfreesboro; McDowell Center for Children, Dyersburg; Mountain Youth Academy, Mountain City; Natchez Trace Youth Academy, Waverly; and Oak Plains Academy, Ashland City. The Applicant has no financial interest in any other facility, including those owned by Universal Health Services, Inc. (Original application)

Universal Health Services, Inc. has committed to funding the project through cash reserves or credit or a combination of both. The Applicant submitted documentation verifying availability of credit.

Project Alternatives

The Applicant rejected construction of a facility in a centrally located area because of interest in "a one of a kind comprehensive children's psychiatric system that requires onsite integration of the proposed project into existing services and levels of care." (Supplemental #1, page 7). Additionally the undeveloped portion of Compass' existing property allows for construction without additional costs associated with identifying and acquiring property elsewhere. They also expect that expansion onsite allows for greater "synergy with existing human, support, and administrative resources."

Construction Costs

The proposed renovated construction cost is $228.13 sq./ft, slightly above the median. The new construction cost is between the first quartile and median at $276.44 sq./ft. The total construction cost is $272.58 sq./ft., falling between the median and third quartile. The proposed construction costs of $7,679,726 ($272.58 sq./ft) are roughly consistent with the published Hospital Construction costs for years 2013-2015 and the CON for the recently implemented Crestwyn hospital project at $244.85 sq./ft. The Applicant reports that the proposed renovation costs are on target with the median and the overall cost per-square-foot falls between the median and third quartile. These construction costs appear reasonable.

The estimated project cost of this proposal is $12,125,378, all of which fall under construction and equipment acquired by purchase. The project costs chart does not list any financing costs and fees.

Occupancy Projections

The Applicant projected occupancy of 80% in Year 5 and 90% occupancy in Year 6. These projections are based on historical utilization for their existing residential services. Average daily census is expected to be 9.2 in Year 1 and 13.2 in Year 2. The occupancy rates for years 1, 2 and 3 (19%, 27%, and 40% respectively) appear quite low and are likely to result in lower operating margin and lengthened time to reach a

positive operation or even a break-even point. The Applicant's projection from the original application expects a positive operating margin within 6 months of beginning operation. However, the Year Two Project Data Chart shows a negative operating margin of $296K.

Revenue Sources and Estimates

Compass has existing contracts with all three TennCare MCOs and plans to seek the addition of inpatient hospital services to each contract. Coverkids and Tenncare Select are covered under their existing Bluecare contract. Children in state custody are proposed to be admitted to the new facility although there was no letter of support from DCS to this effect. Compass can provide the services to youth in custody under a DCS Unique Care Agreement per a single case.

The Applicant currently contracts with Arkansas Medicaid and will seek the addition of inpatient hospital services to that contract as well as a contract with Mississippi Medicaid if this proposed project is approved.

Revenue projections are based on current utilization, referrals and trends as well as population demographics of growth and TennCare participation. TennCare is projected to represent 40.5 % of gross revenue in Year One; commercial insurance at 41.5% and other at 18%. The Applicant does not list an amount or percentage of uncompensated care because it believes that almost all children have insurance or are eligible for Medicaid coverage. (Supplemental)

(Page 6 of Supplemental #2) The Applicant proposes charges for inpatient services as $2,027 per patient day in Year One and $2,019.61 in Year Two. The average net charge total net operating revenue by total days would be $521.88 in Year One and $698.17 in Year Two. The anticipated gross revenue from the proposal is $6,802,625 in Year 1 and $9,726,400 in Year 2. The anticipated net revenue is $1,751,453 in Year 1 and $3,362,413 in Year 2.

Overall, the low projected occupancy rates for Years 1 through 3 may result in increased costs per patient day and would impact favorable operating margins.

C. Healthcare That Meets Appropriate Quality Standards

The Applicant currently holds licenses in good standing from the Tennessee Department of Mental Health and Substance Abuse Services (TDMHSAS) for the following categories: Mental Health Intensive Day Treatment for Children and Adolescents; Mental Health Outpatient Treatment; Mental Health Partial Hospitalization; Alcohol and Drug Residential Treatment for Children and Adolescents (30 beds) and Mental Health Residential Treatment for Children and Adolescents (78 beds). Compass is currently CMS certified as a psychiatric residential treatment facility. The Applicant indicates the intention to comply with all continuing licensing and certification requirements imposed by applicable statutes

and regulations for these areas. If this project proceeds, the Applicant will also apply for TDMHSAS licensure for inpatient services, accreditation from The Joint Commission and certification for inpatient services from Medicaid.

Additionally, the Applicant currently tracks a variety of data to measure outcomes and quality of care provided with demonstration of a measured steady progress over a several year period in patient satisfaction, improvement in symptoms, behavioral interventions and other quality improvements. This data is used in their performance improvement actions and allows for targeted deployment of resources. The Applicant will continue this process in the proposed facility.

D. Contribution To The Orderly Development of Healthcare

The Applicant proposes to continue to provide services to youth across all racial and economic backgrounds, a mix of rural and urban populations with a high rate of poverty. The Applicant notes that it is relatively rare for children to need involuntary admission but they do propose to offer this option as appropriate. They also propose to continue their practice of working with complex cases involving multiple state or private agencies/providers. Compass considers this project as another service in a continuum of care in one location (original application, p.23). Compass expects to continue its existing focus on working with patient families including improving families' knowledge about mental illness, helping develop workable discharge plans with long-term success in mind, and helping families link with community based resources to support the recovery process. Compass proposes to be broadly accessible to youth regardless of payor source or ability to pay for services, will accept both voluntary and involuntary patients, and will serve TennCare enrollees.

The Applicant reports collaboration with a number and variety of community partners to provide assessment and diversion services for youth. These partnerships include local juvenile court systems, grant projects (proposed) to decrease suicide and intensive services to at-risk youth.

The proposed facility location is accessible by car and by some local public transportation.

Physical Plant

The Applicant proposes to construct a 48 bed inpatient facility with two 24 bed units on its existing campus. Both units will provide space for group therapy and activity spaces as well as exam, consult, and treatment space. The construction includes 1,000 sf shell space that will allow for future growth of outpatient programs. Also included is 2,850 sf activity therapy/gymnasium component and approximately 2,250 sf expansion/renovation of existing dining services to accommodate the increase in patient population. The facility will be designed to meet the most current requirements of the Facility Guideline Institute (FGI)

Guidelines for the Design and Construction of Healthcare Facilities and meet all other applicable code requirements.

The Applicant expects to admit patients ages 5-17 to both of the 24 bed units. The proposed facility will not be providing medical detox services but will provide services to youth who are dually diagnosed with psychiatric and chemical dependency (staff includes one physician who is Board Certified in Addiction Medicine). The design of the two distinct units does allow for flexibility in managing changing patient population demographics. Children and adolescents will participate in different programs and each age group will room with and in proximity to their appropriate peer group. Units will not be separated by gender but will have separate sleeping areas. The proposed physical plant appears to meet the stated purposes.

Staffing

According to TDOH (HRSA), all of the Applicant's proposed Tennessee service area is designated as a professional shortage area with the exception of a few Shelby County census tracts. Every county in the service area is also designated medically underserved in the Mental Health category with Shelby County being underserved in the low-income category. Neither of these reports separate by child and adolescent categories. (Sources: TN.Gov/Health/Article/Federal-Shortage-Areas and Datawarehouse.HRSA.Gove/Tools/Analyzers/Muafind.aspx)

The Applicant reports a recent addition of a psychiatrist and two psychiatric nurse practitioners to the staff and expects to be able to continue to recruit nurses, social workers and other health care providers. No specific recruitment plan was identified in the application.

Compass participated in the Memphis Community Based Learning Collaborative for Trauma-Focused Cognitive Behavioral Therapy, a validated treatment modality for children with trauma. This model will be used in the facility with all therapists trained in this evidenced-based best practice.

Proposed Year 1 staffing of the inpatient facility appears to meet minimum standards. In Year 1, the unit staffing allows for 1 RN and 1 Technician per unit per shift with staff added with increased census. In Year 3, if the facility is operating both 24 bed units, there does not appear to have sufficient number of RN's. Staffing for age area is minimal and appears to be based on 5 days, not 7 days. The M.D., psychologist and technician coverage appear adequate. The total number of staff appear adequate but if the nursing ratio was based on the standard 1.4 replacement factor for 7 day coverage, the ratio doesn't allow for either sick or annual leave time. Other staffing ratios allow for 1 master's therapist, 1 activity therapist and 1 teacher per 9 youth.

Effect on Existing Providers and Resources

The Applicant expects there to be minimal impact to existing service providers because of high utilization and demand in the service area. Only Lakeside, Crestwyn and St. Francis currently admit youth. Neither of the state hospitals in the service area have services for youth. The impact of newly opened child and adolescent beds at Lakeside and Crestwyn is unknow. The new facility could benefit the overall healthcare system by providing capacity for child and adolescent beds and adds to the ability to further coordinate and collaborate with other healthcare providers on a continuum of services.

Letters of Support or Opposition

Compass submitted letters of support from State Senator Reginald Tate and State Representative Steve McManus; Tennessee Suicide Prevention Network; Memphis Child Advocacy Center; Mental Health America of Middle Tennessee; Memphis Crisis Center (support for residential); American Forum for Suicide Prevention; The Oaks and Foundations, Memphis; Memphis Union Mission; Greater Community Temple; Tennessee Conference on Social Welfare; Camelot and Union University. No letters were submitted from Arkansas nor Mississippi. No letters of opposition were submitted by the Applicant.

Implementation of State Health Plan

The framework for the State Health Plan is based on the Five Principles for Achieving Better Health that generally address improvement of the health of Tennesseans; allow reasonable access to health care; development of resources to address the needs of Tennesseans while encouraging competitive markets, economic efficiencies, and the continued development of the state's health care system; monitoring for the quality of health care and support of the development, recruitment and retention of a sufficient and quality health care workforce (2013 Annual Report, State of Tennessee Division of Health Planning, page 8). Compass's application promotes these principles through addition of specialized healthcare for children and adolescents needing inpatient mental health treatment. It also proposes to provide access to services to underserved and low income populations, those needing voluntary and involuntary hospitalization and those with TennCare. The Applicant currently participates in professional training for behavioral health professionals. Their mobile assessment services can provide a referral source to the hospital and for outpatient services by Compass or other providers when hospitalization is unnecessary.

Working Relationship with Existing Health Care Providers and Transfer agreements

The application did not acknowledge specific transfer agreements although the application narrative indicates relationships with St. Francis, Lakeside and the Youth Villages Mental Health Mobile Crisis Team.

Participation in Training of Students

The Applicant currently partners with University of Tennessee, University of Memphis, University of Mississippi, and Union University for clinical internships. The application does not specifically address use of such internships in the proposed facility.

3. CONCLUSIONS

Compass proposes to serve minorities and individuals with low incomes and uninsured, including TennCare enrollees. To the extent that Compass is broadly accessible to low income and indigent patients, will accept both voluntary and involuntary patients, and will serve TennCare patients, they will be contributing to the availability of a continuum of psychiatric services.

The new facility should benefit the overall healthcare system by providing capacity for child and adolescent beds and adds to the ability to further coordinate and collaborate with other healthcare providers on a continuum of services.

The population based needs assessment supports a current need for 6 new beds and 2 additional beds in 2020 in the Tennessee service area. However, the occupancy rate for licensed child and adolescent beds in the proposed Tennessee service area is reported at 61.3%. The impact of new beds recently added at Lakeside and Crestwyn has yet to be determined.

Taken separately, the 2016 bed supply for the Arkansas and Mississippi service area is 90 with 43 beds needed; the 2020 population-based bed need did not change for Arkansas and Mississippi.

Actual need for the project may be questioned due to the Applicant's low projected patient volumes. The projected occupancy rates for Years 1, 2 and 3 (19%, 27%, and 40% respectively) appear quite low and are likely to result in lower operating margin and lengthened time to reach a positive operation or even a break-even point. Based on this assessment, fewer new beds than the proposed 48 new beds could be considered.

Appendix A: Population 0-17

Tennessee[1]	2016	2020
Carroll	6,107	5,927
Chester	3,959	3,880
Crockett	3,564	3,554
Dyer	9,295	9,309
Fayette	9,670	10,014
Gibson	12,355	12,397
Hardeman	5,383	5,143
Hardin	5,353	5,204
Haywood	4,386	4,178
Henderson	6,825	6,898
Henry	6,896	6,777
Lake	1,250	1,187
Lauderdale	6,653	6,580
McNairy	5,986	5,860
Madison	24,762	25,201
Obion	6,842	6,619
Shelby	247,503	252,312
Tipton	16,904	17,157
Weakley	7,043	6,975
Total	**390,736**	**395,172**

Arkansas[2]	2016	2020
Craighead	27,576	29,585
Crittenden	13,859	13,266
Cross	3,795	3,418
Greene	11,458	11,928
Jackson	3,403	3,220
Lee	1,557	1,285
Mississippi	11,461	10,576
Poinsett	5,460	5,175
St. Francis	5,591	5,012

[1] 2015 Revised UTCBER Population Projection Series
[2] A. Wiley, Demographic Research, UALR Institute for Economic Advancement, August 2016

Woodruff	1,294	1,106
Total	**85,454**	**84,571**

Mississippi[3]	**2015**	**2020**
	0-19	**0-19**
De Sota	55,006	59,094

[3] Center for Policy Research and Planning, Mississippi Institutions of Higher Education, February 2012

LETTER OF INTENT

State of Tennessee
Health Services and Development Agency
Andrew Jackson Building, 9th Floor
502 Deaderick Street
Nashville, TN 37243
www.tn.gov/hsda Phone: 615-741-2364 Fax: 615-741-9884

LETTER OF INTENT

The Publication of Intent is to be published in the Commercial Appeal (Name of Newspaper) which is a newspaper of general circulation in Shelby (County), Tennessee, on or before June 10 (Month / day), 2016 (Year), for one day.

This is to provide official notice to the Health Services and Development Agency and all interested parties, in accordance with T.C.A. § 68-11-1601 *et seq.*, and the Rules of the Health Services and Development Agency, that:

Compass Intervention Center (Name of Applicant) Residential Treatment Facility (Facility Type-Existing)

owned by: Keystone Memphis, LLC with an ownership type of LLC

and to be managed by: UHS of Delaware, Inc. intends to file an application for a Certificate of Need for [PROJECT DESCRIPTION BEGINS HERE]: the establishment of a children's psychiatric hospital at our existing location of 7900 Lowrance Road, Memphis, TN 38125. The facility will seek additional licensure from the Department of Mental Health and Substance Abuse Services as a 48-bed Mental Health Hospital, offering inpatient psychiatric care for children and adolescents up to age 18. This project does not initiate or discontinue any other health services, and this project does not include any major medical equipment. The proposed cost for the project is $12,152,661.

The anticipated date of filing the application is: June 15, 2016

The contact person for this project is Jeremy Pitzer (Contact Name), CEO (Title)

who may be reached at: Compass Intervention Center (Company Name), 7900 Lowrance Road (Address)

Memphis (City), Tennessee (State), 38125 (Zip Code), 901 / 758-2002 (Area Code / Phone Number)

(Signature), 06/09/16 (Date), jeremy.pitzer@uhsinc.com (E-mail Address)

The Letter of Intent must be filed in triplicate and received between the first and the tenth day of the month. If the last day for filing is a Saturday, Sunday or State Holiday, filing must occur on the preceding business day. File this form at the following address:

Health Services and Development Agency
Andrew Jackson Building, 9th Floor
502 Deaderick Street
Nashville, Tennessee 37243

The published Letter of Intent must contain the following statement pursuant to T.C.A. § 68-11-1607(c)(1). (A) Any health care institution wishing to oppose a Certificate of Need application must file a written notice with the Health Services and Development Agency no later than fifteen (15) days before the regularly scheduled Health Services and Development Agency meeting at which the application is originally scheduled; and (B) Any other person wishing to oppose the application must file written objection with the Health Services and Development Agency at or prior to the consideration of the application by the Agency.

Original Application Copy

Compass Intervention Center

CN1606-025

1. ***Name of Facility, Agency, or Institution***

Keystone Memphis LLC. d/b/a Compass Intervention Center
Name

7900 Lowrance Road — Shelby
Street or Route — County

Memphis — TN — 38125
City — State — Zip Code

2. ***Contact Person Available for Responses to Questions***

Byron Trauger — Consultant Attorney
Name — Title

Trauger & Tuke Attorneys at Law — brt@tntlaw.net
Company Name — Email address

222 4th Avenue North — Nashville — TN — 37219
Street or Route — City — State — Zip Code

CON Consultant — (615) 256-8585 — (615) 256-7444
Association with Owner — Phone Number — Fax Number

3. ***Owner of the Facility, Agency or Institution***

Keystone Memphis LLC — 901-758-2002
Name — Phone Number

7900 Lowrance Road — Shelby
Street or Route — County

Memphis — TN — 38125
City — State — Zip Code

4. ***Type of Ownership of Control (Check One)***

A. Sole Proprietorship		F. Government (State of TN or Political Subdivision)	
B. Partnership		G. Joint Venture	
C. Limited Partnership		H. Limited Liability Company	X
D. Corporation (For Profit)		I. Other (Specify)_____	
E. Corporation (Not-for-Profit)			

PUT ALL ATTACHMENTS AT THE BACK OF THE APPLICATION IN ORDER AND REFERENCE THE APPLICABLE ITEM NUMBER ON ALL ATTACHMENTS.

SUPPLEMENTAL #1
June 29, 2016
12:31 pm

5. ***Name of Management/Operating Entity (If Applicable)***

UHS of Delaware, Inc.
Name

367 South Gulph Road
Street or Route

Montgomery
County

King of Prussia
City

PA
State

19406
Zip Code

PUT ALL ATTACHMENTS AT THE END OF THE APPLICATION IN ORDER AND REFERENCE THE APPLICABLE ITEM NUMBER ON ALL ATTACHMENTS.

6. ***Legal Interest in the Site of the Institution (Check One)***

A.	Ownership	X	D.	Option to Lease	
B.	Option to Purchase		E.	Other (Specify) _____	
C.	Lease of _____ Years				

PUT ALL ATTACHMENTS AT THE BACK OF THE APPLICATION IN ORDER AND REFERENCE THE APPLICABLE ITEM NUMBER ON ALL ATTACHMENTS.

7. ***Type of Institution (Check as appropriate--more than one response may apply)***

A.	Hospital (Specify)_____		I.	Nursing Home	
B.	Ambulatory Surgical Treatment Center (ASTC), Multi-Specialty		J.	Outpatient Diagnostic Center	
C.	ASTC, Single Specialty		K.	Recuperation Center	
D.	Home Health Agency		L.	Rehabilitation Facility	
E.	Hospice		M.	Residential Hospice	
F.	Mental Health Hospital	X	N.	Non-Residential Methadone Facility	
G.	Mental Health Residential Treatment Facility	X	O.	Birthing Center	
H.	Mental Retardation Institutional Habilitation Facility (ICF/MR)		P.	Other Outpatient Facility (Specify)_____	
			Q.	Other (Specify) _____	

8. **Purpose of Review** ***(Check) as appropriate--more than one response may apply)***

A.	New Institution	X	G.	Change in Bed Complement [*Please note the type of change by underlining the appropriate response: Increase, Decrease, Designation, Distribution, Conversion, Relocation*]	X
B.	Replacement/Existing Facility				
C.	Modification/Existing Facility	X			
D.	Initiation of Health Care Service as defined in TCA § 68-11-1607(4) (Specify)_____		H.	Change of Location	
E.	Discontinuance of OB Services		I.	Other (Specify)_____	
F.	Acquisition of Equipment				

Replacement Page 2 of Original Application

2

SUPPLEMENTAL #1
June 29, 2016
12:31 pm

9. Bed Complement Data

Please indicate current and proposed distribution and certification of facility beds.

		Current Beds Licensed	*CON	Staffed Beds	Beds Proposed	TOTAL Beds at Completion
A.	Medical					
B.	Surgical					
C.	Long-Term Care Hospital					
D.	Obstetrical					
E.	ICU/CCU					
F.	Neonatal					
G.	Pediatric					
H.	Adult Psychiatric					
I.	Geriatric Psychiatric					
J.	Child/Adolescent Psychiatric	0	0	0	48	48
K.	Rehabilitation					
L.	Nursing Facility (non-Medicaid Certified)					
M.	Nursing Facility Level 1 (Medicaid only)					
N.	Nursing Facility Level 2 (Medicare only)					
O.	Nursing Facility Level 2 (dually certified Medicaid/Medicare)					
P.	ICF/MR					
Q.	Adult Chemical Dependency					
R.	Child and Adolescent Chemical Dependency	30	0	30	0	30
S.	Swing Beds					
T.	Mental Health Residential Treatment	78	0	62	0	78
U.	Residential Hospice					
	TOTAL	78	0	92	48	156

*CON-Beds approved but not yet in service

10. Medicare Provider Number Will apply for Medicare number and validation

Certification Type Hospital

11. Medicaid Provider Number 5441352

Certification Type Current--Psychiatric Residential Treatment Facility, will apply as Hospital

12. If this is a new facility, will certification be sought for Medicare and/or Medicaid? See A.12 next page

13. *Identify all TennCare Managed Care Organizations/Behavioral Health Organizations (MCOs/BHOs) operating in the proposed service area.* Will this project involve the treatment of TennCare participants? YES **If the response to this item is yes, please identify all MCOs/BHOs with which the applicant has contracted *or plans to contract.*** See A.13 next page

SECTION A: APPLICANT PROFILE

A. 3. Owner of the Facility, Agency or Institution

See Attachment A.3

A. 4. Type of Ownership Control

Keystone Memphis LLC, d/b/a Compass Intervention Center and McDowell Center for Children, is directly and wholly owned by Keystone Education and Youth Services LLC, which is wholly owned by Keys Group Holdings LLC, which is wholly owned by UHS Children's Services, Inc., which is wholly owned by Universal Health Services, Inc. The applicant has no financial interest in any other facility, including those owned by Universal Health Services, Inc. Attached is a list of Tennessee facilities which Universal Health Services, Inc. owns and is the ultimate parent for.

See Attachment A.4

A. 5. Name of Management/Operating Entity

See Attachment A.5

A. 6. Legal Interest in the Site of the Institution

See Attachment A.6

A. 12. If this is a new facility, will certification be sought for Medicare and/or Medicaid?

Compass is currently certified as a Psychiatric Residential Treatment Facility, and the new type of facility will require Compass to seek Medicare validation and certification from Medicaid as a hospital.

A. 13. Identify all TennCare Managed Care Organizations/Behavioral Health Organizations operating in the proposed service area. Will this project involve the treatment of Tenncare participants? YES. If the

response to this item is yes, please identify all MCOs/BHOs with which the applicant has contracted or plans to contract.

Discuss any out-of-network relationships in place with MCOs/BHOs in the area.

The three TennCare Managed Care Organizations (BlueCare, UHCCP, and Amerigroup) operate in the proposed service area. Compass has existing contracts with all three MCOs, and will seek to add inpatient hospital services to each contract. Coverkids and Tenncare Select are covered under our existing Bluecare contract. As such, there are no out-of-network relationships with any of the Tenncare MCOs.

SECTION B: PROJECT DESCRIPTION

B. I. Provide a brief executive summary of the project not to exceed two pages. Topics to be included in the executive summary are a brief description of the proposed services and equipment, ownership structure, service area, need, existing resources, project cost, funding, financial feasibility and staffing.

Brief Description of Proposed Services and Equipment— The Compass Intervention Center proposal includes the construction of a 48 bed child and adolescent inpatient psychiatric facility and additional patient support space. We are excited to say that, upon completion, this will be the only Mental Health Hospital in the state or region dedicated solely to the psychiatric treatment of children and adolescents. This is a one-of-a-kind project and opportunity to advance mental health services for children in Tennessee. The proposed project will be executed at the current facility location of 7900 Lowrance Rd. Memphis, TN 38125, in Shelby County. Additional major components included in this project are the building of space to allow the future growth of outpatient services, 25 additional parking spaces in the northeast section of the property, the renovation and expansion of dietary services, creation of additional outdoor patient areas, and the construction of a new gymnasium.

Ownership Structure—Keystone Memphis LLC, d/b/a Compass Intervention Center, is a Tennessee Limited Liability Company wholly owned by Keystone Education and Youth Services a Tennessee Limited Liability Company, which is wholly owned by Keys Group Holdings a Delaware Limited Liability Company, which is wholly owned by UHS Children's Services, Inc. a Delaware corporation, which is wholly owned by Universal Health Services, Inc. a Delaware corporation.

Service Area—We have identified primary and secondary areas in the proposed service area to include a portions of Tennessee, as well as proximal areas in Arkansas and Mississippi. The primary service area includes 19 Tennessee counties (Shelby, Madison, Tipton, Fayette, Hardeman, Lauderdale, Dyer, McNairy, Chester, Hardin, Crockett, Haywood, Gibson, Lake, Obion, Weakley, Carroll, Henry, and Henderson) in proximity to the proposed project. The primary service area is within an approximately 120 mile radius of Compass and also includes Desoto County Mississippi and Crittenden County Arkansas.
The secondary service area includes 9 counties in Arkansas (Craighead, Cross, Greene, Jackson, Lee, Mississippi, Poinsett, St. Francis, Woodruff). The secondary services area is based upon proximity to Memphis and our mobile assessment services as well as historical referral relationships.

Need— The need for children's inpatient psychiatric beds remains high, with few options in West Tennessee for placement. This proposal arises from both our internal need and the escalating

need in the communities we serve. Lakeside Hospital, the region and state's largest psychiatric facility, has seen explosive census growth over the past several years. According to the Hospital JAR reports Lakeside experienced growth in staffed beds by 67%, patient days by 34% and admissions by 24% from the 2012 to 2014 reporting periods. In the first three months of 2016 Lakeside had to deflect at least 153 child and adolescent patients due to capacity. St. Francis Hospital reported deflecting over 100 psychiatric patients in March 2016 alone. The proposed project would fill this gap in bed availability and ensure all children in the region have access to the mental health services they need. For the Shelby/Memphis region, occupancy as a percentage of staffed beds is over 86%, a strong indicator for the need for additional capacity.

The capacity issues in the region have an effect on the ability of Youth Villages Mobile Crisis and other private providers to safely and appropriately place children. Often, and more frequently during 2015 and 2016, when Lakeside Hospital and St. Francis Hospital are full, there is a domino effect across the state where all mental health hospitals that treat children and adolescents quickly reach capacity or are unable to accept more patients. When this occurs children in need of services may wait in emergency rooms or are put into less-than-ideal safety plans. Some end up going out of state for treatment. We regularly have difficulty and delays placing our patients that need inpatient care, and some end up having to go Mississippi and Kentucky for treatment.

Our internal calls for services and mobile assessment continue to rise at a dramatic rate. In 2015 the call and assessment volume at Compass increased by over 40%, and we have helped fill the community need by providing triage and extra assessment capacity at no charge to the State or community. Our volume continues to increase in 2016, and we project completing over 1000 screening and assessments this year. Over the long-term, about 8% of the referral calls we receive end up meeting criteria for inpatient services. Without consideration of business development activities or impacting other similar services, our own internal need for these beds translates to capacity for an average census of 6.6 or 200 patient days upon opening, This also does not take into account the need existing in the community or the growing need by Mobile Crisis and other community providers in the service area and across the state.

There is overwhelming anecdotal evidence to support need as well. Many times we are unable to locate appropriate inpatient services for the children and adolescents we serve. We have to call every hospital in the state to find that there are no children's beds available anywhere, and this is a common experience shared by Mobile Crisis as well.

The need for this proposed project is widely supported including by community partners, Mobile Crisis, lawmakers, educational institutions and social service agencies.

Existing Resources—Our proposed service area has several psychiatric facilities, however since this proposal is child and adolescent only, there are only three facilities providing similar services: Lakeside Hospital, St. Francis Hospital, and the recently implemented Crestwyn Hospital. Current staffed beds in service often do not meet the community demand for inpatient services.

Project Cost—The proposed project will cost $12,152,661.

Financial Feasibility—The proposed project is financially feasible. The costs to construct are reasonable and will be paid utilizing cash reserves. Universal Health Services, the parent of Compass, will provide the capital resources to complete the project. We have developed a financial proforma that allows us to reasonably recuperate the costs of the project over time while maintaining modest and planful census growth. We plan to reach a positive operating margin 6 months after beginning operations.

Staffing—The proposed project will include 37.9 additional FTEs in year two.

B. II. Provide a detailed narrative of the project by addressing the following items as they relate to the proposal.

B. II. A. Describe the construction, modification and/or renovation of the facility (exclusive of any major medical equipment covered by T.C.A 68-11-1601 et seq.) including square footage, major operational areas, room configuration, etc.

See Square Footage Chart on following page.

Established in 1996, Compass Intervention Center has grown over the years into a 108-bed Residential Treatment Facility for Children and Adolescents with serious behavioral health and addiction disorders. Our current facility is almost 30,000 square feet and houses outpatient programs as well. Demand for mental health services continues to outpace our capacity, and it is time for us to grow again.

In order to address the growing need for Psychiatric Services within the service area, Compass Intervention Center proposes to construct a new, approximately 26,900 sq./ft. 48-Bed Psychiatric Unit Addition on the existing Compass Intervention Center (CIC) Campus in Memphis, TN. The Addition shall provide two distinct 24-Bed Inpatient Nursing Units. Both units will provide a variety of Group Therapy and Activity Spaces as well as Exam, Consult, and Treatment Facilities. The new Addition shall also house an approximately 1,000 sf shell space that will allow for future growth of outpatient programs. A 2,850 sq./ft. Activity Therapy/Gymnasium component and approximately 2,250 sq./ft. expansion/renovation of existing Dining services shall be included as part of this Project to serve the increase in patient population.

Safety & security features are based on current best practices within the Behavioral Health Industry. The new Facilities shall provide ample natural light, open circulation & way finding, and a residential and therapeutic atmosphere throughout, with attention given to the fact that this is a children's facility. The entire Facility shall be designed to meet the most current requirements of the Facility Guidelines Institute (FGI) Guidelines for the Design and Construction of Healthcare Facilities and all other applicable Code requirements.

SQUARE FOOTAGE AND COST PER SQUARE FOOTAGE CHART

A. Unit / Department	Existing Location	Existing SF	Temporary Location	Proposed Final Location	Proposed Final Square Footage			Proposed Final Cost/ SF		
					Renovated	New	Total	Renovated	New	Total
Clinical/Support Spaces						13,153	13,153		$420.34	$ 5,528,687
Admissions						1,250	1,250		$464.48	$ 580,596
Shell Space (future PHP)						988	988		$115.39	$ 113,998
Connector Corridor						1,331	1,331		$248.73	$ 331,053
New Gymnasium						3,138	3,138		$195.07	$ 612,116
Dining to Servery Renovation					707		707	229.04		$ 161,932
Gym to Dining Renovation					1,543		1,543	$227.71		$ 351,364
B. Unit/Depart. GSF Sub-Total					2,250	19,860	22,110	$228.13	$360.85	$ 7,679,726
C. Mechanical/ Electrical GSF						330	330			
D. Circulation /Structure GSF						5,734	5,734			
E. Total GSF					2,250	25,924	28,174	$228.13	$276.44	$ 7,679,726

B. II. B. Identify the number and types of beds increased, decreased, converted, relocated, designated and/or redistributed by this application. Describe the reasons for the change in bed allocations and describe the impact the bed change will have on the existing services.

The plan proposed involves the addition of 48 child and adolescent inpatient psychiatric beds to our existing residential facility. The need for children's inpatient psychiatric beds remains high, with few options in West Tennessee for admission. It has become increasingly difficult to find inpatient services for the children we work with. The inpatient beds will have a positive impact, complementing our existing services and allowing us to provide a full continuum of behavioral health services to appropriately meet the needs of any patient. The proposal decreases pressure on Mobile Crisis and other mental health providers by ensuring less difficulty in locating inpatient beds for patients in need.

While it is difficult to accurately gauge the impact on existing services, we believe the impact to existing services will be minimal as utilization and demand in the service area remain very high. This proposal will benefit the overall healthcare system in the proposed service area and the state by providing much needed capacity for child and adolescent beds. It also presents the opportunity for further coordination and collaboration with other healthcare providers, including those with similar services.

B. II. C. As the applicant describe your need to provide the following health care services (if applicable to this application):

1. **Adult Psychiatric Services**
2. **Alcohol and Drug Treatment for Adolescent (exceeding 28 days)**
3. **Birthing Center**
4. **Burn Units**
5. **Cardiac Catheterization Services**
6. **Child and Adolescent Psychiatric Services**
7. **Extracorporeal Lithotripsy**
8. **Home Health Services**
9. **Hospice Services**
10. **Residential Hospice**
11. **ICF/MR Services**
12. **Long-Term Care Services**
13. **Magnetic Resonance Imaging (MRI)**
14. **Mental Health Residential Services**
15. **Neonatal Intensive Care Unit**

16. Non-Residential Methadone Treatment Centers
17. Open Heart Surgery
18. Positron Emission Tomography
19.Radiation Therapy/Linear Accelerator
20. Rehabilitation Services
21. Swing beds

This proposal to build 48 child and adolescent psychiatric beds is desperately needed and will benefit the service area in several ways.

Improved Distribution of Resources Specific to Children and Adolescents

Table one below shows the distance between Compass Intervention Center and available resources within the identified primary service area for child acute psychiatric care beds. Additionally, the information is further broken down to identify drive time from Compass Intervention Center to other child psychiatric hospitals within the primary market. In the primary service area, average drive time is 15 minutes with average distance being about 9.8 miles from Compass Intervention Center to other child psychiatric hospitals.

Child and Adolescent Psychiatric Beds in Primary Service Area				
Provider	**Type of Facility**	**County and State**	**Miles/ Distance**	**Drive Time**
Crestwyn Behavioral Health	Psychiatric Hospital	Shelby County, TN	4.1 miles	7 minutes
Lakeside Behavioral Health	Psychiatric Hospital	Shelby County, TN	19.5 miles	25 minutes
Saint Francis Hospital	Unit of M/S Hospital	Shelby County, TN	7.3 miles	12 minutes

Crestwyn Behavioral Health is licensed for 15 inpatient psychiatric beds for adolescents ages 13-17. Lakeside Behavioral Health operates 49 inpatient psychiatric beds for children ages 4-17. Saint Francis Hospital has capacity for 35 inpatient psychiatric beds for children ages 4-17. This represents a total of 99 inpatient psychiatric beds for children ages 4-17. With the realization of this proposal, children's beds are better distributed across Shelby County, with our facility in a predominantly African American neighborhood in southeast Memphis.

Bed Availability for Children and Adolescents

Bed availability continues to constrict as occupancy and utilization increase in the region. The need for children's inpatient psychiatric beds remains high, with few options in West Tennessee for placement. This proposal arises from both our internal need and the escalating need in the communities we serve. Lakeside Hospital, the region and state's largest psychiatric facility, has seen explosive census growth over the past several years. According to the Hospital JAR reports Lakeside experienced growth in staffed beds by 67%, patient days by 34% and admissions by 24% from the 2012 to 2014 reporting periods. In the first three months of 2016 Lakeside had to

deflect at least 153 child and adolescent patients due to capacity. St. Francis Hospital reported deflecting over 100 psychiatric patients in March 2016 alone. The proposed project would fill this gap in bed availability and ensure all children in the region have access to the mental health services they need. For the Shelby/Memphis region, occupancy as a percentage of staffed beds is over 86%, a strong indicator for the need for additional capacity.

The capacity issues in the region have an effect on the ability of Youth Villages Mobile Crisis and other private providers to safely and appropriately place children. Often, and more frequently during 2015 and 2016, when Lakeside Hospital and St. Francis Hospital are full, there is a domino effect across the state where all mental health hospitals that treat children and adolescents quickly reach capacity or are unable to accept more patients. When this occurs children in need of services may wait in emergency rooms or are put into less-than-ideal safety plans. Some end up going out of state for treatment. We regularly have difficulty and delays placing our patients that need inpatient care, and some end up having to go Mississippi and Kentucky for treatment.

Our internal calls for services and mobile assessment continue to rise at a dramatic rate. In 2015 the call and assessment volume at Compass increased by over 40%, and we have helped fill the community need by providing triage and extra assessment capacity at no charge to the State or community. Our volume continues to increase in 2016, and we project completing over 1000 screening and assessments this year. Over the long-term, about 5% of the referral calls we receive end up meeting criteria for inpatient services. Without changing anything else, our own internal need for these beds translates to a census of upon opening.

Exclusive Full Continuum of Care for Children and Adolescents

There are no other freestanding acute psychiatric hospitals in the state or region devoted to solely treating children. Adding 48 acute beds, will allow Compass Intervention Center to be the only provider in the region to exclusively treat children and adolescents with psychiatric and substance abuse issues. This will allow for more coordinated and integrated care among various levels of treatment, with all services targeted specifically for children. The inpatient services will complement our existing service lines of residential, partial hospital and intensive outpatient. Furthermore it allows for greater focus on evidenced-based best-practices for the psychiatric treatment of children.

Partnerships

Compass Intervention Center recognizes the importance of partnership, whether it is in the training and development of various disciplines of healthcare professionals, collaboration with other community providers, or providing services to meet specific needs of the population. Compass Intervention Center is partnered with several universities, including University of Tennessee, University of Memphis, University of Mississippi, and Union University to provide high quality clinical internship experiences.

Our partnerships extend into other arenas as well. In 2014 and 2015 we partnered with two local juvenile court systems to provide assessment and diversion services for kids who come into contact with law enforcement. We are excited to participate in proposed grant projects to decrease suicide and provide intensive services to at risk youth. During 2013 and 2014 Compass

participated in the Memphis Community Based Learning Collaborative for Trauma-Focused Cognitive Behavioral Therapy (TF-CBT). TF-CBT is one the most researched and validated treatments for children with trauma, and we have fully committed to the model within the facility. All of our therapists are trained in this evidenced-based best practice, and we have some that are preparing for national certification. These are just a few examples where we put our energy and meaningful effort into partnering in our communities and developing larger systems that are prepared to provide the appropriate services to children in our communities.

B. II. D. Describe the need to change location or replace an existing facility

Not Applicable N/A

B. II. E. Describe the acquisition of any item of major medical equipment (as defined by the Agency Rules and the Statute) which exceeds a cost of $1.5 million; and/or is a magnetic resonance imaging (MRI) scanner, positron emission tomography (PET) scanner, extracorporeal lithotripter and/or linear accelerator by responding to the following:

1. **For fixed-site major medical equipment (not replacing existing equipment:**
    a. **Describe the new equipment, including:**
        1. **Total Cost; (As defined by Agency Rule)**
        2. **Expected Useful Life;**
        3. **List of clinical applications to be provided; and**
        4. **Documentation of FDA approval.**
    b. **Provide current and proposed schedules of operations.**
2. **For mobile major medical equipment:**
    a. **List all sites that will be served;**
    b. **Provide current and/or proposed schedule of Operations;**
    c. **Provide the lease or contract cost**
    d. **Provide the fair market value of the equipment; and**
    e. **List the owner for the equipment.**
3. **Indicate the applicant's legal interest in equipment (i.e., purchase, lease, etc.) In the case of equipment purchase include a quote and/or proposal from an equipment vendor, or in the case of an**

equipment lease provide a draft lease or contract that at least includes the term of lease and the anticipated lease payments.

Not Applicable N/A. Proposal does not include any major medical equipment.

B. III. A. Attach a copy of the plot plan of the site on 8 ½" X 11" sheet of white paper which must include:

1. **Size of site (in acres)**
2. **Location of structure on the site; and**
3. **Location of the proposed construction.**
4. **Names of streets, roads or highway that cross or border the site. Please note that the drawings do not need to be drawn to scale. Plot plans are required for all projects.**

See Attachment B. III. A

B. III. B. 1. Describe the relationship of the site to public transportation routes, if any, and to any highway or major road developments in the area. Describe the accessibility of the proposed site to patients/clients.

Compass is located in Southeast Memphis near the intersection of Hacks Cross and Winchester, a major bus route. Compass is also less than ½ mile from the Hacks Cross exit of 385, a major artery of traffic from East Memphis to Southeast Memphis and Collierville. Highway 385 also connects to I-40 on the northeast side of the metropolitan area. I-55, I-40, Highway 385, Highway 78 (which turns into I-22), Highway 79 and Highway 51 converge in Memphis making the facility extremely accessible from all areas of Memphis, suburban areas, as well as to the counties in the proposed service areas.

B. IV. Attach a floor plan drawing for the facility which includes legible labeling of patient care rooms (noting private or semi-private), ancillary areas, equipment areas, etc. on an 8 ½" X 11" sheet of white paper. NOTE: DO NOT SUBMIT BLUEPRINTS. Simple line drawings should be submitted and need not be drawn to scale.

See Attachment B. IV.

B. V. For a Home Health Agency or Hospice, identify:

1. **Existing service area by county;**

2. **Proposed service area by county;**
3. **A parent or primary service provider;**
4. **Existing branches; and**
5. **Proposed branches.**

Not Applicable N/A.

SECTION C: GENERAL CRITERIA FOR CERTIFICATE OF NEED

NEED

C. Need. 1. Describe the relationship of this proposal toward the implementation of the State Health Plan and Tennessee's Health: Guidelines for Growth.

a. Please provide a response to each criterion and standard in Certificate of Need categories that are applicable to the proposed project. Do not provide responses to General Criteria and Standards (pages 6-9) here.

See Project Specific Review Criteria below

b. Applications that include a Change of Site for a health care institution, provide a response to General Criterion and Standards (4) (a-c).

Not Applicable N/A

Project Specific Review Criteria—Psychiatric Inpatient Services

A. Need

1. **The population-based estimate of the total need for psychiatric inpatient services is 30 beds per 100,000 general population (using population estimates prepared by the Department of Health and applying the data in Joint Annual Reports).**

   By 2020 there the general population of Shelby County alone is expected to exceed 981,000 people. In the Tennessee portion of the Proposed Service Area (Shelby, Madison, Tipton, Fayette, Hardeman, Lauderdale, Dyer, McNairy, Chester, Hardin, Crockett, Haywood, Gibson, Lake, Obion, Weakley, Carroll, Henry, and Henderson) the total population projection increases by 36,170 to 1,631,641 between 2016 and 2020, representing growth of 2.4%.

   The data above demonstrates consistent population growth in the proposed service area; however this project will serve only children under 18.

   Sources: Tennessee Department of Health CON Age Group Projections 2016-2020.

2. **For adult programs, the age group of 18 years and older should be used in calculating the estimated total number of beds needed.**

   Not Applicable-N/A

3. **For child inpatient under age 13, and if adolescent program the age group of 13-17 should be used.**

   The percentage of the general population that children (0-17) make up in Shelby County is projected at 25.8% (247,503) in 2016 and remains consistent at 25.7% (252,312) in 2020 indicating a 1.9% growth in this population. The average percentage is consistent throughout the proposed service area at 24.2% The average 0-17 population growth in the Tennessee portion of the proposed service area is strong at 2.1% through 2020. The total population in this age range for the Tennessee portion of the proposed service area is expected to grow to 395,172 by 2020.

   Based on this data there is need for 119 beds for children ages 0-17 in the proposed service area.

   Sources: Tennessee Department of Health CON Age Group Projections 2016-2020.

4. **These estimates for total need should be adjusted by the existent staffed beds operating in the area as counted by the Department of Health in the Joint Annual Report.**

   There are total of 99 existing and proposed staffed child and adolescent beds in the proposed service area:

   Lakeside—49
   St. Francis—35
   Crestwyn—15
   Total—99

   According to the Tennessee Department of Mental Health there are 8 Licensed Mental Health Hospitals in the entire West Region. Of this group only Lakeside and Crestwyn currently provide services to children under 18. Delta Medical Center, Methodist Healthcare and St .Francis Hospital provide psychiatric inpatient services as part of Medical-Surgical systems, however only St. Francis currently provides services to children under 18.

Beds by Licensed Mental Health Hospital		
	Adult	0-17
Behavioral Healthcare Center at Martin	16	
Behavioral Healthcare Center at Memphis	16	
Crestwyn	45	15
MMHI	111	
Pathways	10	

Lakeside	212	49
WMHI	187	
Woodridge	16	
Totals	613	64
Psychiatric Beds in Medical-Surgical facilities		
	Adult	0-17
Methodist Healthcare	34	
Delta Medical Center	109	
St. Francis Hospital	67	35
Totals	210	35
Grand Totals	**823**	**99**

Per the current year JAR report, Lakeside hospital reports beds staffed for children under 18 at 49. St. Francis Hospital reports 35 staffed psychiatric beds for children under 18. The Crestwyn opened recently in 2016, so no data is currently available for utilization. Crestwyn is approved for a total of 15 licensed beds for adolescents, and for the purposes of this proposal we assume their ability to staff and fill all 15 beds.

The estimates for need should further take into consideration the reasonable portions of our service area that are out-of-state. Our facility is approximately 14 miles from Arkansas to the West and 4 miles from Mississippi to the South. The contiguous counties, Crittenden County Arkansas and Desoto County Mississippi represent an additional 222,286 people (2015 estimate). Desoto County Mississippi is one of the fastest growing counties in the South with an estimated population growth of 7.5% from 2010-2014. There is only one provider of children's inpatient psychiatric services in Desoto County, Parkwood Hospital, with 52 Child and Adolescent beds serving all of North Mississippi.
The Arkansas counties in our secondary service area represent an additional population base of 293,186 with 23.4 in the 0-17 age range. There are no child and adolescent inpatient providers located in those counties. Based on bed need and current referral patterns, people from these local, but out-of-state areas will continue to come to Memphis to seek treatment.

Sources: Tennessee Department of Health JAR reports 2014 (current data), Tennessee Department of Mental Health and Substance Abuse Services— Licensure Division, U.S. Census Bureau, Mississippi Department of Health.

B. Service Area

1. **The geographic service area should be reasonable and based on an optimal balance between population density and service proximity or the Community Service Agency.**

   The proposed geographic service area is reasonable. The 19 counties in Tennessee that make up the primary service area are within a less than 2 hour travel time to Memphis, and lacking in other options for children's inpatient psychiatric care. The adjoining counties of Crittenden Arkansas and Desoto Mississippi are effectively part of the greater Memphis area, and citizens regularly travel to Tennessee for healthcare services. We are basing the service area on population based community need in the greater Memphis metro area and surrounding counties, proximity to other similar services as well as existing patterns of patient referral.

   Given that this proposal is unique in our aim to serve only children and adolescents, our service area includes counties in Arkansas that lack in these specific services. The service area closely mirrors the service area for Lakeside hospital based on data for admissions by county.

   *Data based on hospital JAR reports

2. **The relationship of the socio-demographics of the service area, and the projected population to receive services, should be considered. The proposal's sensitivity to and responsiveness to the special needs of the service area should be considered including accessibility to consumers, particularly women, racial and ethnic minorities, low income groups, and those needing services involuntarily.**

   Compass Intervention Center is dedicated to providing services that meet the needs of the communities we serve, and this project will be no different. While we provide our services to children across all racial and economic backgrounds, we are committed to providing high quality services to poor and underserved families. Our current and proposed service area includes a mix of rural and urban populations and has high rates of poverty, with some areas having almost 47% of children living below the poverty line. Based on census data the children in our service are made up of approximately 52% African American, 38% White, 6% Hispanic, 3% Asian and 1% other.

   Shelby County, the largest county by population in the proposed service area, has a higher percentage of the population made up of children (26%) compared to the national average of 22%, with approximately 35.5 % living below the poverty line in Shelby County. For comparison the Tennessee average for children under the poverty line is 26.2 %, with a US average of 22.7%

   It is relatively rare for children to need involuntary admission; however we plan to offer this option when the circumstances arise.

   Sources: US Census Bureau, University of Memphis 2015 Poverty Fact Sheet

C. Relationship to Existing Applicable Plans

1. **The proposal's relationship to policy as formulated in state, city, county, and/or regional plans and other documents should be a significant consideration.**

We did not identify any county or city policies and plan that guide the development of a project of this kind; the backbone for this proposed project has been developed with the State of Tennessee State Health Plan as a guiding document (2014 Update). Specifically this proposal exemplifies the Principles within the Framework for the State Health Plan. Below we highlight some areas where we are in alignment with the goals of the State health Plan.

Principle 1: Healthy Lives

We recognize that each person's health is the result of the interaction of behaviors, social factors, the environment, health care and our genetic endowment. Not only do we work with the children we serve to manage behaviors and mental health symptoms, but we put a lot of energy into family work. The broad goals of the family work includes improving the families' knowledge about mental illness, helping develop workable discharge plans with long-term success in mind, and helping families link with community based resources to support the recovery process. Our extensive relationships with other providers, agencies and managed care organizations, etc., allows for better planning, collaboration and care for patients.

Principle 2: Access

Goal 2d: People in Tennessee are able to obtain appropriate quality health care services to meet their needs: Access to inpatient services for children in Shelby County is a critical issue. More often than not the child and adolescent providers in the area are full or not accepting patients. The need for these services is much higher than the population statistics would indicate. This proposal provides full addresses the much needed capacity for inpatient care.

Principle 3: Economic Efficiencies

Goal 3c: The value of health and health care resources is continually measured, reported, and improving. We track a variety of data to measure outcomes and the quality of the care provided. Our metrics for patient satisfaction, improvement in symptoms, behavioral interventions and variety of other quality improvements demonstrate a measured steady progress over a several year period. This data drives our performance improvement actions and allows us to deploy resources in a targeted manner.

Principle 4: Quality of Care

The underlying concept behind this principle is that providers should be held to the highest standards and that quality of care improves through adoption of best practices. Compass is surveyed multiple times each year through licensure, The Joint Commission,

and Behavioral Health Care Organizations, to name a few. We consistently achieve excellent results and demonstrate a commitment to improving outcomes.

Goal 4a: Priorities for Consideration: Behavioral Health Screenings can be an important factor in achieving successful patient outcomes. All Compass patients are screened at admission for trauma utilizing the CPSS tool (Child Post Traumatic Symptom Scale). We conduct behavioral health screenings or assessments on over 1000 children per year, most of them being referred for appropriate community-based services at lower levels of care.

Goal 4c: The health system uses evidenced based practices and minimizes unnecessary variations in procedures. Trauma-Focused Cognitive Behavioral Therapy (TF-CBT) is the most researched evidenced-based best practice for the treatment of trauma in children; we deploy TF-CBT with high fidelity to the model.

Principle 5: Workforce

Goal 5c: An adequate health workforce is recruited and retained to care for the health needs of patients and communities. Compass has been very fortunate in the recruitment and retention of our healthcare workforce. In the past two years we have been able to recruit an additional psychiatrist and two psychiatric nurse practitioners. We are consistently able to recruit talented nurses, social workers and health care workers.

2. **The proposal's relationship to underserved geographic areas and underserved population groups as identified in state, city, county and/or regional plans and other documents should be a significant consideration.**

According to the Tennessee Department of Health, the vast majority of the service area is designated as underserved by the U.S. Health Resources and Services Administration. This includes the entire counties of Chester, Crockett, Fayette Gibson, Hardeman, Hardin, Haywood, Lauderdale, McNairy and Tipton counties. Portions of Dyer, Madison and Shelby Counties are also designated as underserved. Our facility is located in Southeast Shelby County in an area that designated as underserved. Every county in the service area is also medically underserved in the Mental Health category, with Shelby County being underserved in the low-income category.

Sources: https://tn.gov/health/article/federal-shortage-areas
http://datawarehouse.hrsa.gov/tools/analyzers/muafind.aspx

3. **The impact of the proposal on similar services supported by state appropriations should be assessed and considered.**

N/A Not Applicable— the two state Mental Health Hospitals in our service area do not accept child or adolescent patients.

4. **The proposal's relationship to whether or not the facility takes voluntary and/or involuntary admissions, and whether the facility serves acute and/or long-term patients, should be assessed and considered.**

   We plan to accept involuntary patients wherever appropriate, however in the West Region there are a relative few adolescent admissions that are completed in this manner. We do plan to have at least one Admissions staff certified to complete involuntary admissions. We plan to primarily serve shorter-term acute patients, though there will likely be occasions where long-term patients are served.

5. **The degree of projected financial participation in the Medicare and TennCare programs should be considered.**

   We are projecting active participation with all three TennCare MCOs. The projections are based on current utilization, referrals and trends, as well as population demographics including growth and Tenncare participation. TennCare represents $948,070 and $1,360,520 of net revenue in Years One and Two respectively. We do not expect any participation in Medicare.

D. Relationship to Existing Similar Services in the Area

1. **The area's trends in occupancy and utilization of similar services should be considered.**

   It is difficult to fully quantify utilization and occupancy specific to the child and adolescent psychiatric beds in the area. Crestwyn Hospital data is not yet available and St. Francis does not break out unit specific occupancy and average daily census in the JAR reports. That said, occupancy and utilization remain very high in the Memphis/Shelby Region. Overall occupancy on staffed beds for Mental Health Hospitals in the Memphis/Shelby Region is exceptional at 86.8% (highest in the state for the Mental Health Hospital category). The Memphis/Shelby Region also demonstrated a 14.6% increase in admissions over the prior year, which increased from 8,738 to 10,018. Lakeside Hospital, which gives us the best analogue on occupancy and utilization for the Region has demonstrated strong growth and high demand for services. In 2013 Lakeside met the high community need for services by running an occupancy of 116.5% on staffed beds and demonstrated 11-12% growth in Admissions/Discharges and Average Daily Census categories from 2013-2014.

   Source: 2013-Current JAR data, Reports 2, 2A from "Report for Hospitals"

2. **Accessibility to specific special need groups should be an important factor.**

   Compass is committed to providing high-quality services to children and adolescents regardless of payor source or the ability to pay for services. Access to appropriate services for the child and adolescent population is difficult to find at times, and we

consistently find that regional providers are at capacity/not accepting admissions. We also do not shy away from complex cases often involving multiple state or private agencies/providers. The project adds needed capacity in a specific demographic, relieving pressure on current similar providers and providing regional crisis teams with a needed resource.

E. Feasibility

The ability of the applicant to meet Tennessee Department of Mental Health licensure requirements (related to personnel and staffing for psychiatric inpatient facilities) should be considered.

We are fully aware of the licensure requirements for this type of facility, and are fully able to meet all Licensure requirements. We currently provide 24-hour Psychiatric and general Medical coverage and 24-hour direct nursing supervision, and this will continue with the addition of inpatient services. We are committed to meeting and exceeding the requirements for Direct Care staff which per current licensure regulation is at least two staff on duty, on site, per ward, per shift, with at least one RN. With our existing services and Human Resources processes in place, we expect a good amount of internal and external interest in Direct Care and other positions.

C. Need. 2. Describe the relationship of this project to the applicant facility's long-range development plans, if any.

This proposal represents a critical step in the long-range plan for Compass. First, by providing for inpatient services, it allows for a full and flexible continuum of care to address the mental health needs of any child, even as those needs change. This continuum encompasses less restrictive options as well as those for the most acute and chronic patients who are most in need of services. The proposal also importantly allows for future growth of less restrictive options like intensive outpatient and partial hospital and which brings with it the increased ability to utilize step-down treatment options. Providing comprehensive mental health services in one location will improve the long-term success of treatment by improving coordination of care and communication of important patient information.

C. Need. 3. Identify the proposed service area and justify the reasonableness of that proposed area. Submit a county level map including the state of Tennessee clearly marked to reflect the service area. Please submit the map on 8 ½" X 11" sheet of white paper marked only with ink detectible by a standard photocopier (i.e., no highlighters, pencils, etc.).

We have identified primary and secondary service areas within the proposed service area. The primary service area includes 19 Tennessee counties (Shelby, Madison, Tipton, Fayette, Hardeman, Lauderdale, Dyer, McNairy, Chester, Hardin, Crockett, Haywood, Gibson, Lake, Obion, Weakley, Carroll, Henry, and Henderson) in proximity to the proposed project. The primary service area is within an approximately 120 mile radius of Compass and also includes Desoto County Mississippi and Crittenden County Arkansas. The primary service area is reasonable in that it is based upon proximity to the facility including the denser population center in the greater Memphis area, existing relationships with referral sources (higher numbers of admissions from counties within the service area), and upon lack of availability of similar services in much of the service area. The service area mirrors the service area for Lakeside hospital based on data for admissions by county.

The secondary service area includes 9 counties in Arkansas (Craighead, Cross, Greene, Jackson, Lee, Mississippi, Poinsett, St. Francis, Woodruff). The secondary services area is based upon proximity to Memphis and our mobile assessment services as well as historical referral relationships.
The secondary service area is reasonable in that it is based on **current** mobile assessment services we provide, and we have long-standing referral relationships with providers in secondary services area. Our mobile assessors currently provide services in these areas, and it is reasonable to expect that there will be need for the proposed inpatient services as well.

The table on the following page indicates the distribution of admissions by county, and the data clearly supports the reasonableness of the service area: Almost 90% of our Tennessee admissions from 2013 to 2015 originated in the counties identified in the proposed service area.

See Attachment C.NEED. 3, The Proposed Service Area Maps

Tennessee Admissions by County					
	2013	2014	2015	Total	
Bedford	0	0	1	1	0.1%
Benton	0	0	1	1	0.1%
Bledsoe	0	1	1	2	0.3%
Blount	0	1	0	1	0.1%
Bradley	0	0	1	1	0.1%
Carroll	0	2	2	4	0.6%
Chester	2	0	0	2	0.3%
Coffee	0	1	0	1	0.1%
Crockett	2	1	0	3	0.4%
Davidson	2	6	8	16	2.4%
Decatur	1	2	0	3	0.4%
Dickson	0	0	1	1	0.1%
Dyer	3	7	2	12	1.8%
Fayette	8	10	14	32	4.7%
Franklin	0	0	1	1	0.1%
Gibson	3	4	5	12	1.8%
Greene	0	0	1	1	0.1%
Hamblen	0	1	0	1	0.1%
Hamilton	1	2	1	4	0.6%
Hardeman	3	5	7	15	2.2%
Hardin	3	8	5	16	2.4%
Haywood	4	4	7	15	2.2%
Henderso	3	4	3	10	1.5%
Henry	0	2	0	2	0.3%
Hickman	2	0	0	2	0.3%
Jefferson	0	0	3	3	0.4%
Knox	0	4	7	11	1.6%
Lauderdal	3	3	3	9	1.3%
Madison	44	49	41	134	19.7%
Maury	0	1	3	4	0.6%
McMinn	0	0	1	1	0.1%
McNairy	2	2	2	6	0.9%
Montgom	5	4	14	23	3.4%
Moore	0	0	1	1	0.1%
Rhea	0	0	1	1	0.1%
Robertsor	0	0	3	3	0.4%
Rutherfor	2	5	9	16	2.4%
Shelby	75	101	83	259	38.1%
Smith	0	0	1	1	0.1%
Sullivan	0	1	1	2	0.3%
Sumner	0	2	7	9	1.3%
Tipton	11	6	8	25	3.7%
Warren	1	0	2	3	0.4%
Washingt	0	0	2	2	0.3%
Weakley	0	1	0	1	0.1%
Williamsc	0	0	4	4	0.6%
Wilson	0	0	2	2	0.3%
Totals	180	240	259	679	100.0%

*Shaded rows indicate counties with admissions in the proposed service area.

C. Need. 4.

a. Describe the demographics of the population to be served by this proposal.

The population served by this proposal is children and adolescents up through age 17, who are experiencing serious mental health disturbances (examples: suicidality, homicidality, psychosis), and who are not able to be safely or effectively managed in a less restrictive level of care. We will accept patients who are voluntary and involuntary. The proposed service area is a mix of urban, suburban and rural cities/counties, so our population demographics are very diverse. The population demographics of the service are, both rural and urban, has a higher than average percentage of low-income families.

b. Describe the special needs of the service area population, including health disparities, the accessibility to consumers, particularly the elderly, women, racial and ethnic minorities, and low-income groups. Document how the business plans of the facility will take into consideration the special needs of the service area population.

Compass is committed to serving all children in need and we have high utilization of services by underserved and low-income families. Our location in southeast Memphis is a primarily African American neighborhood that is underserved in terms of mental health services. Approximately 60% of the children we treat are African American. On average 70% of the children we treat children have Medicaid, and we expect this higher-than-average trend to continue with the expansion of services. We continue to develop our relationships with Mobile Crisis (Youth Villages), who are charged with the responsibility for West Tennessee and most of the state to screen children and adolescents with TennCare for psychiatric admission.

Our ongoing business development activities focus on community engagement, building partnerships within our community, and providing services to the entire population we serve. We offer mobile assessment services based out of the Nashville area and Little Rock, AR.

C. Need. 5. Describe the existing or certified services, including approved but unimplemented CONs, of similar institutions in the service area. Include utilization and/or occupancy trends for each of the most recent three years of data available for this type of project. Be certain to list each institution and its/utilization and/or occupancy individually.

Inpatient bed projects must include the following data: admissions and discharges, patient days, occupancy. Other projects should use the most appropriate measures, e.g. cases, procedures, visits, admissions, etc.

According to the Tennessee Department of Mental Health there are 8 Licensed Mental Health Hospitals in the entire West Region. Of this group only Lakeside and Crestwyn currently provide services to children under 18. Delta Medical Center, Methodist Healthcare and St .Francis Hospital provide psychiatric inpatient services as part of Medical-Surgical systems, however only St. Francis currently provides services to children under 18.This proposal is unique in that we will only treat children and adolescents. As such, this proposal will not have any impact on the operations of adult-only facilities and we cannot consider them similar within this criterion.

Lakeside Hospital— Lakeside has full service child and adolescent inpatient programs within a large behavioral health system. Lakeside reported 261 staffed beds in the most recent JAR report, with 25 of those dedicated solely to adolescent patients. Lakeside reports a capacity of 55 children and adolescents and Lakeside occupancy and utilization have been increasing over past several years. Lakeside Hospital consistently demonstrates growth and high demand for services. In 2012 and 2013 Lakeside met the high community need for services by running an occupancy of over 100% on staffed beds and demonstrated 27.9% growth in Admissions/Discharges and 31% growth in Patient Days from 2012-2014.

	2012	2013	2014
Admissions/Discharges	6,606	7,525	8,453
Patient Days	63,508	74,858	83,256
Occupancy of Staffed Beds	111.2%	116.5%	87.4%

Crestwyn Hospital—recently opened 60-bed facility, with only 15 of 60 beds being adolescent (45 beds for adult and geriatric services). Per their recently implemented CON, Crestwyn does not plan to treat children. The impact of proposed project would be minimal considering differing primary service lines. There is no utilization/occupancy data to draw from yet.

St. Francis—full service Med-Surg facility that also provides inpatient services to children and adolescents and adults. St. Francis has a reported capacity of 35 on their child and adolescent floor. Admission/Discharge and Patient Days data below are specific to child and adolescent psychiatric population which was not broken out in their 2012 report and Occupancy data is based on the whole hospital.

	2012	2013	2014
Admissions/Discharges	Not Available	869	825
Patient Days	Not Available	6200	6359
Occupancy of Staffed Beds	71.7%	73.4%	74.0%

Source Current: JAR reports 2012-2014, Report 2A, St. Francis Hospital Individual JAR Reports 2012-2014

C. Need. 6. Provide applicable utilization and/or occupancy statistics for your institution for each of the past three (3) years and the projected annual utilization for each of the two (2) years following completion of the project. Additionally provide details regarding the methodology used to project utilization. The methodology must include detailed calculations or documentation from referral sources and identification for all assumptions.

Historical Utilization			
	2013	2014	2015
Admissions	281	260	256
Patient Days	32603	32217	32241
ADC	89.3	88.3	88.3
Occupancy	97%	96%	96%

Projected Utilization (New Beds)		
	Year One	Year Two
Admissions	478	688
Patient Days	3356	4816
ADC	9.2	13.2
Occupancy	19.2%	27.5%

Projected Utilization (Combined)		
	Year One	Year Two
Admissions	738	948
Patient Days	36479	37939
ADC	99.7	103.7
Occupancy	71.20%	74.10%

The methodology used to project future utilization associated with this project comes from a few sources. First, projections are based on recent Compass data points. Over 2014-2015, we had an average daily census of 1.7 patients who were hospitalized during their residential treatment with Compass or met criteria for inpatient admission. Occasionally, we are not able to secure inpatient services for current residents and are forced to continue to manage them in the residential setting. During that same time period of 2014-2015, an average of 8.3% of patients assessed were determined to need inpatient treatment. Based on a projected ALOS of 7 days, this translates to an additional 3 ADC upon opening. We anticipate additional interest and referrals to our program simply because it is a specialty children's mental health hospital, which is not found elsewhere in the service area or region.

Demand and need for mental health services remains extremely high in the proposed service area and from Compass specifically. The occupancy on staffed Mental Health beds is over 86% beds for the region. Our residential occupancy has been above 96% of staffed beds on an annual basis for over three years, and there is sustained pressure on existing services. Inquiry calls for services and assessments increased by 40% during 2015, and we have added assessment staff to manage the additional need. Our projections for utilization growth are conservative and well justified by trends in the region and state over the past several years.

Finally, we based increased utilization on data points associated with key stakeholders like Mobile Crisis and other hospitals. The number of Mobile Crisis assessments, which are required for all TennCare participants prior to hospitalization, continue to rise annually. Though it varies by region and agency, crisis services consistently maintain admirable deflection rates of 65-70%, leaving 30-35% of patients screened referred to inpatient services. As the number of crisis screenings continues to rise each year, the number of patients appropriate for inpatient services will continue to rise at a steady and predictable rate.

ECONOMIC FEASIBILITY

C. Economic Feasibility. 1. Provide the cost of the project by completing the Project Costs Chart on the following page. Justify the cost of the project.

- **All Projects should have a project cost of at least $3,000 on Line F (Minimum CON Filing Fee). CON Filing fee should be calculated from Line D. (See Application Instructions for Filing Fee).d**
- **The cost of any lease (building, land, and/or equipment) should be based on fair market value or the total amount of the lease payments over the initial term of the lease, whichever is greater. Note: This applies to all equipment leases including by procedure**

or "per click" arrangements. The methodology used to determine the total lease cost for a "per click" arrangement must include, at a minimum, the projected procedures, the "per click" rate and the term of the lease.

- **The cost for fixed and moveable equipment includes, but is not necessarily limited to, maintenance agreements covering the expected useful like of the equipment; federal, state and local taxes and other governmental assessments; and installation charges, excluding capital expenditures for physical plan renovation or in-wall shielding, which should be included under construction costs or incorporated in a facility lease.**
- **For projects that include construction, modification, and/or renovation; documentation must be provided from a contractor and or architect that support the estimated construction costs.**

See Project Costs Chart on following page.

See Attachment C. Economic Feasibility.1

PROJECT COSTS CHART

A.	Construction and equipment acquired by purchase:		
	1.	Architectural and Engineering Fees	$844,500
	2.	Legal, Administrative (Excluding CON Filing Fee), Consultant Fees	50,000
	3.	Acquisition of Site	N/A
	4.	Preparation of Site	779,000
	5.	Construction Costs	7,679,726
	6.	Contingency Fund	1,102,307
	7.	Fixed Equipment (Not included in Construction Contract)	90,000
	8.	Moveable Equipment (List all equipment over $50,000)	827,135
	9.	Other (Specify) paving repair, soil remediation, permits testing, owner's risk	752,710
B.	Acquisition by gift, donation, or lease:		
	1.	Facility (inclusive of building and land)	N/A
	2.	Building only	N/A
	3.	Land only	N/A
	4.	Equipment (Specify)_____	N/A
	5.	Other (Specify) _____	N/A
C.	Financing Costs and Fees:		
	1.	Interim Financing	N/A
	2.	Underwriting Costs	N/A
	3.	Reserve for One Year's Debt Service	N/A
	4.	Other (Specify) _____	N/A
D.	Estimated Project Cost (A+B+C)		$12,125,378
E.	CON Filing Fee		27,283
F.	Total Estimated Project Cost (D+E)		
		TOTAL	$12,152,661

C. Economic Feasibility. 2. Identify the funding sources for this project.

Please check the applicable item(s) below and briefly summarize how the project will be financed. (Documentation for the type of funding MUST be inserted at the end of the application, in the correct alpha/numeric order and identified as Attachment C, Economic Feasibility-2)

__ A. Commercial Loan—Letter form lending institution or guarantor stating favorable initial contract, proposed loan amount, expected interest rates, anticipated term of the loan and any restrictions or conditions.

__ B. Tax-exempt bonds—Copy of preliminary resolution or a letter from the issuing authority stating favorable initial contact and a conditional agreement from an underwriter or investment banker to proceed with the issuance.

__ C. General obligation bonds—Copy of resolution from issuing authority or minutes from the appropriate meeting.

__ D. Grants—Notification of intent form for grant application or notice of grant award; or

_X_ E. Cash Reserves—Appropriate documentation from Chief Financial Officer

_X_ F. Other—identifies and document funding from all other sources. Potential utilization of Revolver Credit Agreement.

See Attachment C, Economic Feasibility -2.

C. Economic Feasibility.3. Discuss and document the reasonableness of the proposed project costs. If applicable, compare the cost per square foot of construction to similar projects recently approved by the Health Services Development Agency.

The proposed construction costs of $7,679,726 ($272.58 sq. /ft.) are consistent with the published Hospital Construction Costs for years 2013-2015 and the CON for the recently implemented Crestwyn hospital project at $244.85 sq. /ft. The proposed renovated costs are on target with the

Median and the overall cost per-square-foot falls between the Median and 3rd quartile. Based on this data the costs are reasonable.

Hospital Construction Costs Per Square Foot, Years: 2013-2015			
	Renovated Construction	New Construction	Total Construction
1st Quartile	$160.66/ sq. ft.	$244.85/ sq. ft.	$196.62/ sq. ft.
Median	$223.91/ sq. ft.	$308.43/ sq. ft.	$249.67/ sq. ft.
3rd Quartile	$297.82/ sq. ft.	$374.32/ sq. ft.	$330.50/ sq. ft.

Source: CON approved applications for years 2013- 2015

C. Economic Feasibility.4. Complete Historical and Projected Data Charts on the following two pages. Do not modify the Charts provided or submit Chart substitutions! Historical Data Chart represents revenue and expense information for the last three (3) years for which complete data is available for the institution. Projected Data Chart requests information for the two (2) years following the completion of this proposal. Projected Data Chart should reflect revenue and expense projections for the Proposal Only (i.e., if the application is for additional beds include anticipated revenue from the proposed beds only, not from all beds in the facility).

HISTORICAL DATA CHART

Give information for the last *three (3)* years for which complete data are available for the facility or agency. The fiscal year begins in January (Month).

	Year 2013	Year 2014	Year 2015
A. Utilization Data (Specify unit of measure) Patient Days	32,603	32,217	32,241
B. Revenue from Services to Patients			
1. Inpatient Services	$32,940,883	$32,430,381	$32,500,775
2. Outpatient Services	97,200	205,200	313,600
3. Emergency Services	-	-	-
4. Other Operating Revenue (Specify) Physicians Fees, Medical Records, Admin. Misc.	2,441	2,048	2,727
Gross Operating Revenue	$ 33,040,524	$ 32,637,629	$ 32,817,102
C. Deductions from Gross Operating Revenue			
1. Contractual Adjustments	$ 20,905,188	$ 20,549,545	$ 20,221,109
2. Provision for Charity Care	-	-	-
3. Provisions for Bad Debt	(102,870)	91,230	164,685
Total Deductions	$ 20,802,318	$ 20,640,775	$ 20,385,794
NET OPERATING REVENUE	$ 12,238,206	$ 11,996,854	$ 12,431,308
D. Operating Expenses			
1. Salaries and Wages	$ 4,382,932	$ 4,556,722	$ 4,692,219
2. Physician's Salaries and Wages	471,650	487,000	508,410
3. Supplies	894,209	991,027	852,438
4. Taxes	418,760	416,292	412,874
5. Depreciation	214,759	225,549	252,145
6. Rent	30,591	37,832	35,484
7. Interest, other than Capital	-	-	-
8. Management Fees:			
a. Fees to Affiliates	248,400	287,640	330,480
b. Fees to Non-Affiliates	-	-	-
9. Other Expenses (Specify) Benefits, Purchased Services, Maintenance, Insurance, Travel, Other Misc.	1,235,760	1,439,982	1,541,554
Total Operating Expenses	$ 7,897,061	$ 8,442,044	$ 8,625,604
E. Other Revenue (Expenses) – Net (Specify)	$ -	$ -	$ -
NET OPERATING INCOME (LOSS)	$ 4,341,145	$ 3,554,810	$ 3,805,704
F. Capital Expenditures			
1. Retirement of Principal	$ -	$ -	$ -
2. Interest	2,450,081	2,464,791	2,482,990
Total Capital Expenditures	$ 2,450,081	$ 2,464,791	$ 2,482,990
NET OPERATING INCOME (LOSS) LESS CAPITAL EXPENDITURES	$ 1,891,064	$ 1,090,019	$ 1,322,714

SUPPLEMENTAL #1
June 29, 2016
12:31 pm

PROJECTED DATA CHART

Give information for the two (2) years following the completion of this proposal. The fiscal year begins in January (Month).

		Year One	Year Two
A.	Utilization Data (Specify unit of measure) Patient Days	3356	4816
B.	Revenue from Services to Patients		
1.	Inpatient Services	$ 6,040,800	$ 8,668,800
2.	Outpatient Services	676,800	936,000
3.	Emergency Services	--	--
4.	Other Operating Revenue (Specify) Physicians Fees, Medical Records, Admin. Misc.	85,025	121,600
	Gross Operating Revenue	$ 6,802,625	$ 9,726,400
C.	Deductions from Gross Operating Revenue		
1.	Contractual Adjustments	$ 4,214,361	$ 6,029,784
2.	Provision for Charity Care	704,185	144,913
3.	Provisions for Bad Debt	132,626	189,290
	Total Deductions	$ 5,051,172	$ 6,363,987
NET OPERATING REVENUE		$ 1,751,453	$ 3,362,413
D.	Operating Expenses		
1.	Salaries and Wages	$ 1,226,673	$ 1,655,644
2.	Physician's Salaries and Wages	304,180	421,280
3.	Supplies	103,030	147,852
4.	Taxes	157,212	185,335
5.	Depreciation	680,572	680,572
6.	Rent	6,000	6,000
7.	Interest, other than Capital	--	--
8.	Management Fees:		
a.	Fees to Affiliates	--	--
b.	Fees to Non-Affiliates	--	--
9.	Other Expenses (Specify) Benefits, Purchased Services, Maintenance, Insurance, Travel, Other Misc.	452,353	561,594
	Total Operating Expenses	$ 2,930,020	$ 3,658,277
E.	Other Revenue (Expenses) -- Net (Specify)	$ --	$ --
NET OPERATING INCOME (LOSS)		$ (1,178,567)	$ (295,864)
F.	Capital Expenditures		
1.	Retirement of Principal	-- $	-- $
2.	Interest	--	--
	Total Capital Expenditures	$ --	$ --
NET OPERATING INCOME (LOSS) LESS CAPITAL EXPENDITURES		$ (1,178,567)	$ (295,864)

Year 3 Projected Data

The fiscal year begins in January.

	Year Three
A. Utilization Data (Patient Days)	7006
B. Revenue from Services to Patients	
1. Inpatient Services	$12,610,800
2. Outpatient Services	1,248,000
3. Emergency Services	--
4. Other Operating Revenue (Specify)	
physician fees, medical records, miscellaneous admin	176,358
Gross Operating Revenue	**$14,035,158**
C. Deductions from Gross Operating Revenue	
1. Contractual Adjustments	$8,713,687
2. Provision for Charity Care	210,813
3. Provision for Bad Debt	272,031
Total Deductions	**$9,196,531**
Net Operating Revenue	**$4,838,627**
D. Operating Expenses	
1. Salaries and Wages	$1,859,333
2. Physicians salaries and Wages	596,510
3. Supplies	215,085
4. Taxes	185,977
5. Depreciation	680,572
6. Rent	6,000
7. Interest Other than Capital	--
8. Management Fees	
a. Fees to Affiliates	--
b. Fees to Non-Affiliates	--
9. Other Expenses (Specify)	
(See Other Expenses Years 1-3 above)	653,423
Total Operating Expenses	**$4,196,900**
E. Other Revenue (Expenses) – Net (Specify)	--
Net Operating Income (Loss)	**$ 641,727**
F. Capital Expenditures	
1. Retirement of Principal	--
2. Interest	--
Total Capital Expenditures	$ --
Net Operating Income (Loss)	
Less Capital Expenditures	**$ 641,727**

C. Economic Feasibility. 5. Please identify the projects average gross charge, average deduction from operating revenue, and average net charge.

	Year One	Year Two
Average Gross Charge (Gross charges/total days)	$1824.97	$1824.97
Average Deduction (Total Deductions/total days)	$1396.17	$1216.43
Average net Charge Total Net Operating Revenue/total days)	$428.87	$608.54

C. Economic Feasibility. 6.

A. Please provide the current and proposed charge schedules for the proposal. Discuss any adjustment to current charges that will result from the implementation of the proposal. Additionally, describe the anticipated revenue from the proposed project and the impact on existing patient charges.

Current charges will not be impacted by the implementation of this proposal. While charges are periodically adjusted from time to time, there are no plans to change current charges in association with this proposal. The anticipated gross revenue from the proposal is $6,802,625 in Year One and $9,726,400 in Year Two and anticipated net revenue as $1,751,453 in Year One and $3,362,413 in Year Two. As a new service line, the revenues from the proposal will not have any impact on existing charges. (See following current and proposed fee schedules).

Current Schedule of Charges	
Residential Treatment	$1,000.00
Partial Hospital 4-8hrs	$600.00
Intensive Outpatient	$400.00
Psychiatric Evaluation	$185.00
History and Physical	$100.00

Proposed Schedule of Charges	
Inpatient Hospital	$1,800.00
Residential Treatment	$1,000.00
Partial Hospital 4-8hrs	$600.00
Intensive Outpatient	$400.00
Psychiatric Evaluation	$185.00
History and Physical	$100.00
Initial Hospital Care (30 min)	$195.00
Initial Hospital Care (50 min)	$200.00
Initial Hospital Care (70 min)	$205.00
Subsequent Care (15 min)	$80.00
Subsequent Care (25 min)	$140.00
Subsequent Care (35 min)	$95.00
Discharge Day Management < 30 min	$95.00
Discharge Day Management > 30 min	$125.00

B. Compare the proposed charges to those of similar facilities in the service area/adjoining services areas, or to proposed charges of projects recently approved by the Health Services and Development Agency. If applicable, compare the proposed charges of the project to the current Medicare allowable fee schedule by common procedure terminology (CPT) codes.

Our proposed charges were developed in comparison to the charges of other facilities in the service area, including the recently implemented Crestwyn project, and other regional UHS facilities.

C. Economic Feasibility. 7. Discuss how projected utilization rates will be sufficient to maintain cost-effectiveness.

Based on the conservative projected utilization rates, the proposal is cost-effective in that we will obtain a positive monthly operating margin within 6 months of beginning operations and positive project-to-date operating margin within approximately 30 months.

C. Economic Feasibility. 8. Discuss how financial viability will be ensured within two years; and demonstrate the availability of sufficient cash flow until financial viability is achieved.

As indicated in the included financial reports (also See Attachment C, Economic Feasibility-10), our parent company Universal Health Services, Inc. has sufficient financial resources to ensure the viability of this proposal. Our conservative utilization projections have us showing a positive monthly margin within 6 months of beginning operations. It should also be noted that existing operations generate a margin which helps ensure financial viability.

C. Economic Feasibility. 9. Discuss the projects participation in state and federal revenue programs including a description of the extent to which Medicare, TennCare/Medicaid, and medically indigent patients will be served by the project. In addition, report the estimated dollar amount of revenue and percentage of total project revenue anticipated from each of Tenncare, Medicare, or other state and federal sources for the proposal's first year of operation.

Through this proposal, which is serving only children and adolescents, we expect no participation in Medicare and limited medically indigent patients. The first year of this proposal does include a substantial percentage of charity care associated with starting operations. Compass currently participates in TennCare and is contracted with all three MCOs to provide behavioral health services. We also currently participate in Arkansas Medicaid and will seek participation in Mississippi Medicaid upon implementation of this proposal.

Revenue by State or Federal Program		
	Revenue in Year One	Percentage of Total Revenue
TennCare	$948,070	54%
AR Medicaid	$284,421	16.2%

C. Economic Feasibility. 10. Provide copies of the balance sheet and income statement from the most recent reporting period of the institution and the most recent audited financial statements with accompanying notes, if applicable. For new projects, provide financial

information for the corporation, partnership or principal parties involved with the project. Copies must be inserted at the end of the application, in the correct alpha-numeric order and labeled as Attachment C, Economic Feasibility-10.

See Attachment C, Economic Feasibility-10.

C. Economic Feasibility. 11. Describe all alternatives to this project which were considered and discuss the advantages of each alternative including but not limited to:

A. A discussion regarding the availability of less costly, more effective, and/or more efficient alternative methods of providing the benefits intended by the proposal. If development of such alternatives is not practicable, the applicant should justify why not; including reasons as to why they were rejected.

The development of inpatient psychiatric service included in this proposal cannot be duplicated or provided in a different non-hospital setting. Facility Admission Criteria as well as Medically Necessity standards for TennCare and commercials insurers require this service to be distinct from less restrictive community based treatments and driven by severity and acuity of symptoms. We are committed to ensuring that state resources are used wisely by linking consumers with the appropriate services onsite or in the community. Through this proposal Compass will be able to provide a continuum of care that ranges from outpatient services to inpatient psychiatric care.

B. The applicant should document that consideration has been given to alternatives to new construction, e.g., modernization or sharing arrangements. It should be documented that superior alternatives have been implemented to the maximum extent possible.

Prior to initiating this proposal we explored the option of converting RTC beds to inpatient beds. However, due to the variations in physical plant requirements between Residential Treatment and Inpatient Hospital we would have had to demolish the existing facility to the foundation, making it not financially feasible to convert. The proposal is the superior alternative in that it allows for state-of-the art

facilities to be constructed specifically for the child and adolescent patient population utilizing industry best practices and design.

See also Attachment C. Economic Feasibility. 1.

CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTH CARE

C. Contribution to the Orderly Development of Health Care. 1
List all existing health care providers (e.g., hospitals, nursing homes, home care organizations, etc.), managed care organizations, alliances, and/or networks with which the applicant currently has or plans to have contractual and/or working relationships, e.g., transfer agreements, contractual agreements for health care services.

Current Healthcare Related Contracts and Agreements

NAME	CONTRACT TYPE
Aetna	Managed Health
Amerigroup	Managed Health
Arkansas Medicaid	Managed Health
Atrium Pharmacy	Pharmacy
Ballet Memphis Corporation	Therapy Services
Baptist College of Health Sciences	School Affiliation
BHSG	Managed Health
Blue Care	Managed Health
Blue Cross Blue Shield of Tennessee	Managed Health
Centerstone of America	MOU
Cigna	Managed Health
eTransconic Transcription, LLC	Transcription Services
Magellan	Managed Health
Marquis Mobile Dentist	Mobile Dental Services
Medical Waste Services	Medical Waste Disposal
Methodist LeBonheur Healthcare	Medical
Passport Health Communications, Inc.	Benefit Verification
Radiographics, Inc.	Portable Diagnostics
Saint Francis Hospital	Therapy Services
Saint Francis Hospital	Transfer Agreement
Tricare South	Managed Health
Union University	School Affiliation
United Health Care (UBH/Optum)	Managed Health

University Of Memphis	School Affiliation
University Of Mississippi	School Affiliation
University Of Tennessee at Knoxville	School Affiliation
Value Options/Tricare	Managed Health

C. Contribution to the Orderly Development of Health Care. 2
Describe the positive and/or negative effects of the proposal on the healthcare system. Please be sure to discuss any instances of duplication or competition arising from your proposal including a description of the effect the proposal will have on the utilization rates of existing providers in the services area of the project.

This proposal will benefit the overall healthcare system in the proposed service area and the state by providing much needed capacity for child and adolescent beds. The proposal decreases pressure on Mobile Crisis and other mental health providers by ensuring less difficulty in locating inpatient beds for patients in need. While similar services exist in our service area, there is still need for additional beds, and therefore we do not foresee measureable negative impact to existing providers. Our utilization projections are based on admissions generated internally, and take into account the steady growth in overall hospital utilization trends across the region and state. We will continue to work with other hospitals and agencies to provide a comprehensive mental health system.

C. Contribution to the Orderly Development of Health Care. 3
Provide the current and/or anticipated staffing pattern for all employees providing patient care for the project. This can be reported using FTEs for these positions. Additionally, please compare the clinical staff salaries in the proposal to the prevailing wage patterns in the service area as published by the Tennessee Department of Labor & Workforce Development and/or other documented sources.

As an existing facility, we expect to realize overlap between some existing employees and additional employees hired as part of this proposal. For example, the current Director of Nursing will have responsibility over the nursing department staff associated with the proposed project. The following table breaks out the various clinical FTEs as of Year two of the proposal.

Year 2 FTE Grid	
Position	**FTE**
Nursing Admin	2.0
Nursing (RN)	7.0
Nursing (Tech)	8.4
Partial Hospital	1.5
Activities Therapy	1.4
Social Work	2.0
Total Patient Care FTE	22.3

In comparing our current wages to data from the Tennessee Department of Labor, Compass demonstrates highly competitive pay for clinical positions. In the table below our starting rates are compared with the Starting, Median and Experienced rates as published on the website for the Tennessee Department of Labor.

Clinical Staff Type	Wage Type	Starting	Median	Experienced	Compass Rate
Social Worker	Annual	$30,928	$47,840	$58,017	$38,000
Psychiatric Tech	Hourly	$10.47	$11.30	$13.10	$10.25
RN	Hourly	$21.32	$27.10	$30.47	$24.00
Recreational Therapy	Annual	$25,417	$38,998	$51,392	$35,000

*Tennessee Department of Labor Occupational and Employment Wage Rates 2014

C. Contribution to the Orderly Development of Health Care. 4 Discuss the availability and accessibility to human resources required by the proposal, including adequate professional staff, as per the Department of Health, the Department of Mental Health and Developmental Disabilities, and/or the Division of Mental Retardation Services licensing requirements.

As an existing entity Compass currently has processes in place for the development of human resources. We currently have 120 employees and 8 contracted professional staff. We will not have any difficulty hiring and training the additional employees needed to implement this project. Compass has successfully recruited professional staff over the last three years including an MD, a psychologist and two Nurse Practitioners.

C. Contribution to the Orderly Development of Health Care. 5
Verify that the applicant has reviewed and understands all licensing certification as required by the State of Tennessee for medical/clinical staff. These include without limitation, regulations concerning physician supervision, credentialing, admission privileges, quality assurance policies and programs, utilization review policies and programs, record keeping and staff education.

It is verified that we understand all licensing certification as required by the State of Tennessee for Medical/Clinical staff, including without limitation regulations concerning physician supervision, credentialing, admission privileges, quality assurance policies and programs, utilization review policies and programs, record keeping and staff education. As an existing behavioral health facility, Compass already has processes and policies in place for all of the above required items and will make any modifications required with the addition of inpatient services.

C. Contribution to the Orderly Development of Health Care. 6
Discuss your health care institution's participation in the training of students in the areas of medicine, nursing, social work, etc. (e.g., internships, residencies).

Compass currently has a robust clinical internship and field placement program for graduate and undergraduate students in several fields including Social Work, Counseling, Psychology, Recreational Therapy and Occupational Therapy. We have field placement agreements with The University of Tennessee (Knoxville and Martin Campuses), University of Mississippi, University of Memphis and Union University. Each year between 10 and 20 students complete field placement experiences with Compass Intervention Center. Through this proposal, expansion of our services will allow for an even greater scope and extent of student learning, including the possibility of working with medical schools and their students.

C. Contribution to the Orderly Development of Health Care. 7

a. Please verify, as applicable, that the applicant has reviewed and understands the licensure requirements of the Department of Health, The Department of Mental Health and Developmental

Disabilities, the Division of Mental Retardation, and/or any applicable Medicare standards.

Compass is currently licensed with the Tennessee Department of Mental Health and Substance Abuse Services, and will be seeking the additional Mental Health Hospital license from the agency. It is verified that Compass has fully reviewed and understands the applicable licensure requirements of the Tennessee Department of Mental Health and Substance Abuse Services, and Medicare Conditions of Participation and other relevant standards. As an existing behavioral health facility, Compass has a long-standing relationship with the department of Mental Health and Substance Abuse Services and fully complies with all requirements of licensure.

b. Provide the name of the entity from which the applicant has received or will receive licensure, certification, and/or accreditation.

Licensure: Compass is currently licensed by the State of Tennessee Department of Mental Health and Substance Abuse Services in the categories of Alcohol and Drug Residential Treatment for Children and Youth, Mental Health Outpatient Facility, Mental Health Partial Hospitalization Facility, Mental Health Residential Treatment for Children and Youth, and Mental Health Intensive Day Treatment for Children and Adolescents. Upon approval and implementation of the project we plan to add Inpatient Psychiatric Beds to our license.

Certification: Compass is currently certified by TennCare as a residential treatment facility, and will jointly pursue validation and certification by Medicare and TennCare as a Psychiatric Inpatient Hospital.

Accreditation: Compass is currently accredited by the Joint Commission under the Behavioral Health Manual. Compass was last surveyed in March 2015 with exemplary results. Upon approval and implementation of the project we will seek the additional accreditation under the Joint Commission Hospital manual as well, and each subsequent future survey will be completed on both the Hospital and Behavioral Health manuals.

c. If an existing institution please describe the current standing with any licensing, certifying, or accrediting agency. Provide a copy of the current license of the facility.

Compass is currently in good standing with the Tennessee Department of Mental Health and Substance Abuse Services Licensure Division and the Joint Commission.

See Attachment C. Contribution to the Orderly Development of Health Care. 7-c.

d. For existing licensed providers, document that all deficiencies (if any) cited in the last licensure certification and inspection have been addressed through an approved plan of correction. Please include a copy of the most recent licensure/certification inspection with an approved plan of correction.

All deficiencies cited in the last onsite inspection have been have been addressed thorough an approved plan of correction.

See Attachment C. Contribution to the Orderly Development of Health Care. 7-d.

C. Contribution to the Orderly Development of Health Care. 8

Document and explain any final orders or judgments entered in any state or county by a licensing agency or court against professional licenses held by the applicant or any entities or persons with more than a 5% ownership interest in the applicant. Such information is to be provided for licenses regardless of whether such license is currently held.

Not Applicable N/A

C. Contribution to the Orderly Development of Health Care. 9
Identify and explain any final civil or criminal judgments for fraud or theft against any person or entity with more than a 5% ownership interest in the project.

Not Applicable N/A

C. Contribution to the Orderly Development of Health Care. 10
If the proposal is approved, please discuss whether the applicant will provide the Tennessee Health Services and Development Agency and/or the reviewing agency information concerning the number of patients

treated, the number and type of procedures performed and other data as required.

Once this proposal is approved Compass will fully provide utilization data and other necessary data to the Tennessee Health Services and Development Agency and/or other reviewing agency.

PROOF OF PUBLICATION

Attach the full page of the newspaper in which the notice of intent appeared with the mast and dateline intact or submit a publication affidavit from the newspaper as proof of the publication of the letter of intent.

Please see following Affidavit and the notice of intent as published in the Commercial Appeal.

The Commercial Appeal
Affidavit of Publication

STATE OF TENNESSEE
COUNTY OF SHELBY

Personally appeared before me, Patrick Maddox, a Notary Public, Marianne Sheridan, of MEMPHIS PUBLISHING COMPANY, a corporation, publishers of The Commercial Appeal, morning and Sunday paper, published in Memphis, Tennessee, who makes oath in due form of law, that she is Legal Clerk of the said Memphis Publishing Company, and that the accompanying and hereto attached advertisement was published in the following editions of The Commercial Appeal, to-wit:

June 10, 2016

Marianne Sheridan

Subscribed and sworn to before me this 10th day of June, 2016.

Notary Public

My commission expires January 20, 2020.

PATRICK MADDOX
STATE OF TENNESSEE NOTARY PUBLIC
COUNTY OF SHELBY

DEVELOPMENT SCHEDULE

Tennessee Code Annotated 68-11-1609(c) provides that a Certificate of Need is valid for a period not to exceed three (3) years (for hospital projects) or two (2) years (for all other projects) from the date of issuance and after such time shall expire; provided that the Agency may, in granting the Certificate of Need for good cause shown. Subsequent to granting the Certificate of Need, the Agency may extend a Certificate of Need for a period upon application and good cause shown accompanied by a non-refundable reasonable filing fee, as prescribed by rule. A Certificate of Need which has been extended shall expire at the end of the extended time period. The decision whether to grant such an extension is within the sole discretion of the Agency, and is not subject to review, reconsideration or appeal.

1. **Please complete the Project Completion Forecast Chart on the next page. If the project will be completed in multiple phases, please identify the anticipated completion date for each phase.**

2. **If the response to the preceding question indicates that the applicant does not anticipate completing the project within the period of validity as defined in the preceding paragraph, please state below any request for an extended schedule and document the "good cause" for such an extension.**

If approved we will complete the project within the prescribed period of validity. Please see the Project Completion Forecast Chart on the Following Page.

PROJECT COMPLETION FORECAST CHART

Enter the Agency projected Initial Decision date, as published in T.C.A. § 68-11-1609(c): **9/28/2016**

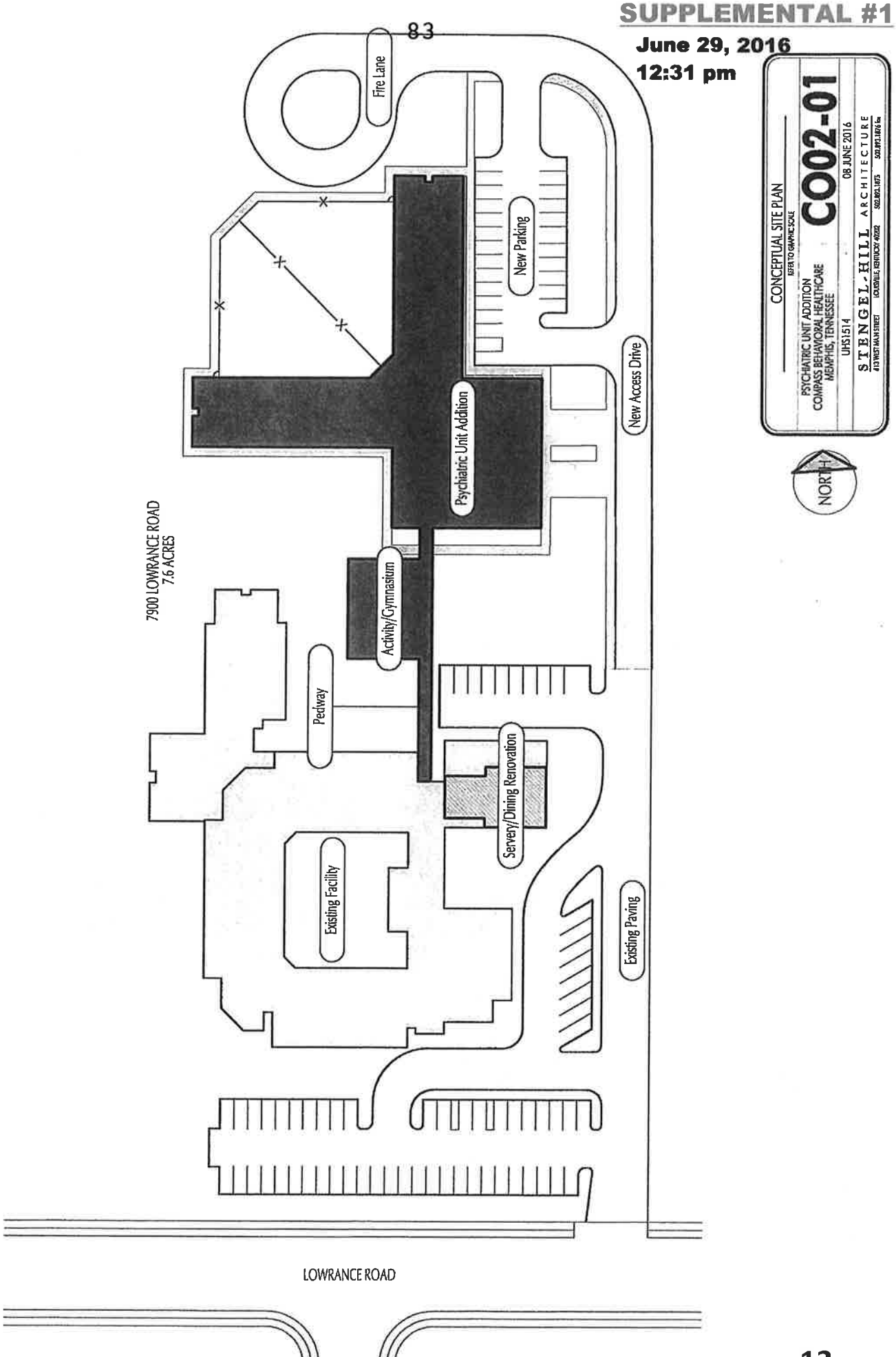
Assuming the CON approval becomes the final agency action on that **date;** indicate the number of days **from the above agency decision date** to each phase of the completion forecast.

Phase	DAYS REQUIRED	Anticipated Date (MONTH/YEAR)
1. Architectural and engineering contract signed	--	August 2016
2. Construction documents approved by the Tennessee Department of Health	135	February 2017
3. Construction contract signed	120	January 2017
4. Building permit secured	150	February 2017
5. Site preparation completed	230	May 2017
6. Building construction commenced	240	May 2017
7. Construction 40% complete	310	August 2017
8. Construction 80% complete	390	October 2017
9. Construction 100% complete (approved for occupancy	470	January 2018
10. *Issuance of license	510	February 2018
11. *Initiation of service	600	May 2018
12. Final Architectural Certification of Payment	515	February 2018
13. Final Project Report Form (HF0055)	545	March 2018

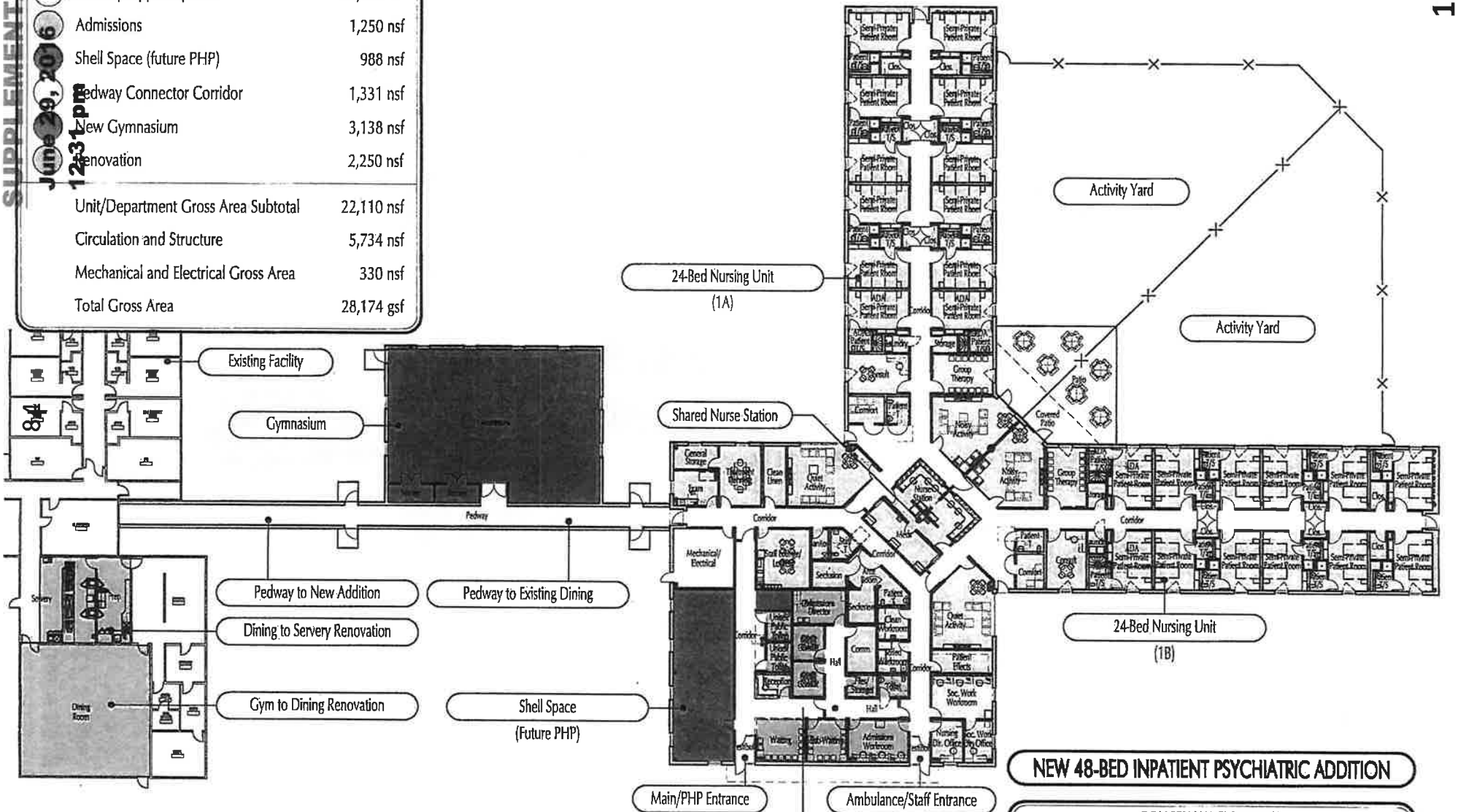
* **For projects that do NOT involve construction or renovation: Please complete items 10 and 11 only.**

Note: If litigation occurs, the completion forecast will be adjusted at the time of the final determination to reflect the actual issue date.

50


83
Fire Lane
New Parking
New Access Drive
Psychiatric Unit Addition
Activity/Gymnasium
Pedway
Servery/Dining Renovation
Existing Facility
Existing Paving
7900 LOWRANCE ROAD
7.6 ACRES
LOWRANCE ROAD
CONCEPTUAL SITE PLAN
REFER TO GRAPHIC SCALE
PSYCHIATRIC UNIT ADDITION
COMPASS BEHAVIORAL HEALTHCARE
MEMPHIS, TENNESSEE
UHS1514
C002-01
08 JUNE 2016
STENGEL-HILL ARCHITECTURE
NORTH

LEGEND	
Patient Beds	48 Beds
Clinical/Support Spaces	13,153 nsf
Admissions	1,250 nsf
Shell Space (future PHP)	988 nsf
Pedway Connector Corridor	1,331 nsf
New Gymnasium	3,138 nsf
Renovation	2,250 nsf
Unit/Department Gross Area Subtotal	22,110 nsf
Circulation and Structure	5,734 nsf
Mechanical and Electrical Gross Area	330 nsf
Total Gross Area	28,174 gsf



NEW 48-BED INPATIENT PSYCHIATRIC ADDITION

CONCEPTUAL FLOOR PLAN
NOT TO SCALE

PSYCHIATRIC UNIT ADDITION
COMPASS BEHAVIORAL HEALTHCARE
MEMPHIS, TENNESSEE

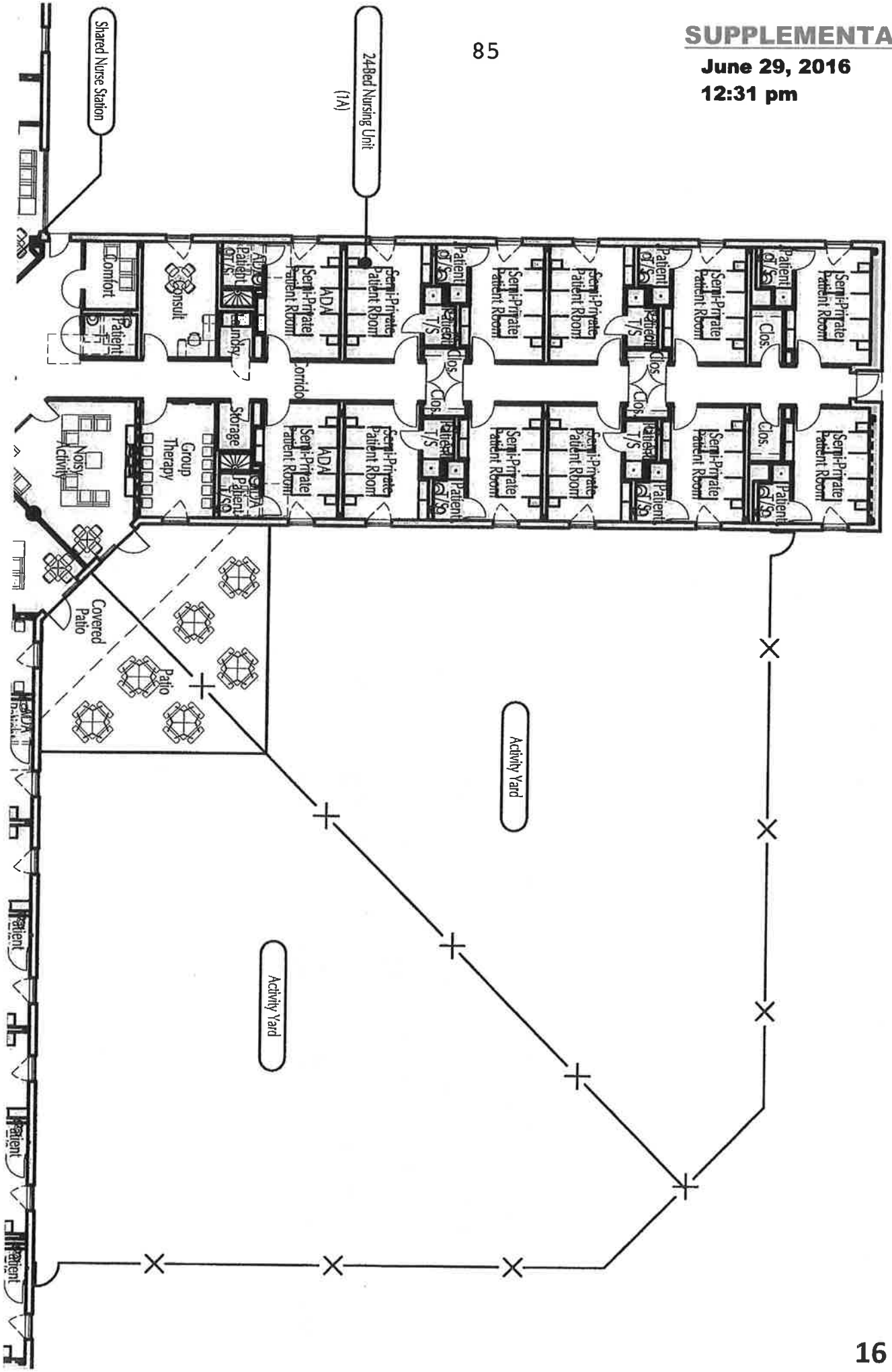
CO02-02

UHS1514

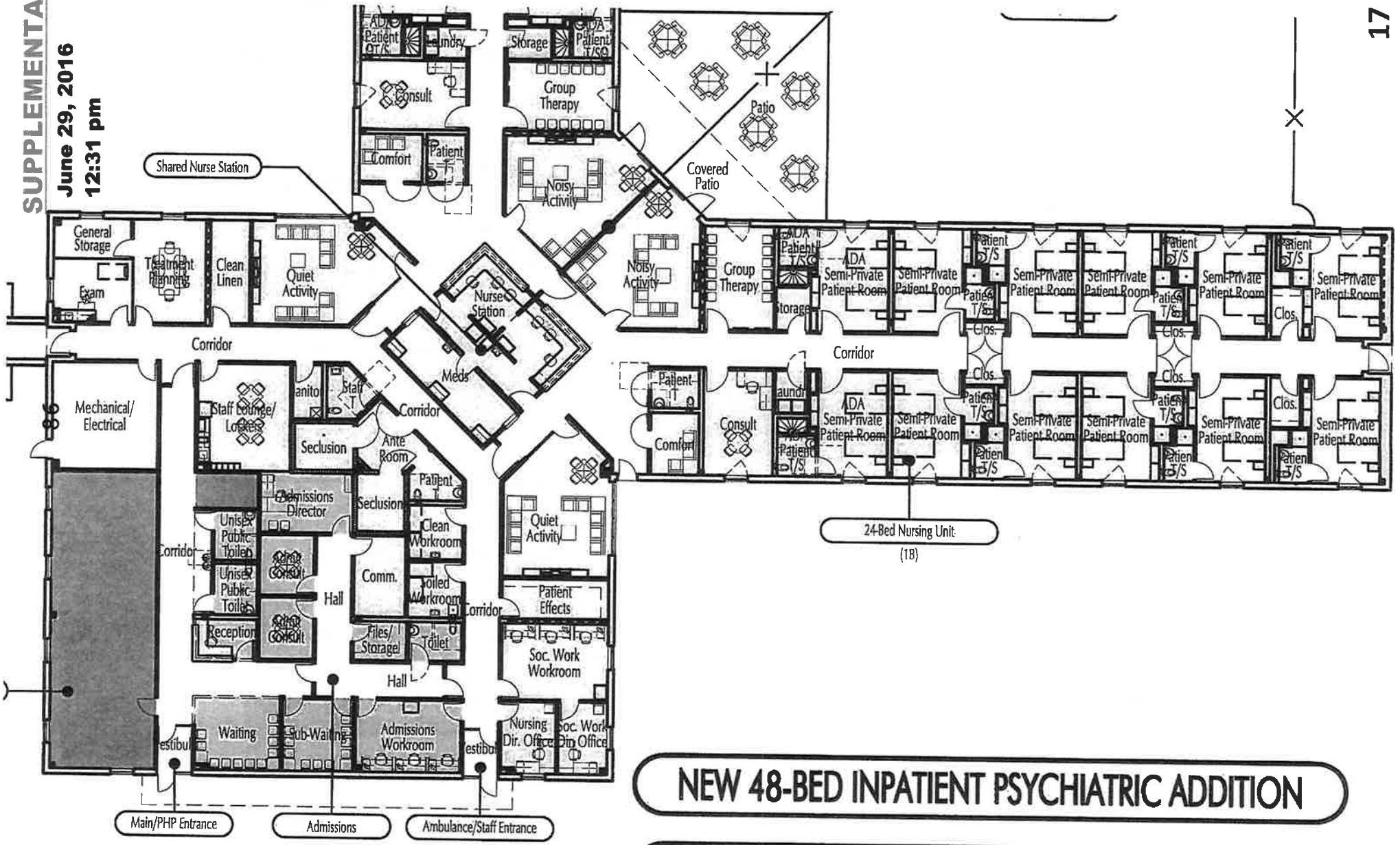
08 JUNE 2016

STENGEL-HILL ARCHITECTURE
613 WEST MAIN STREET LOUISVILLE, KENTUCKY 40202 502.893.1675 502.893.1676 fax

SUPPLEMENTAL #1
June 29, 2016
12:31 pm



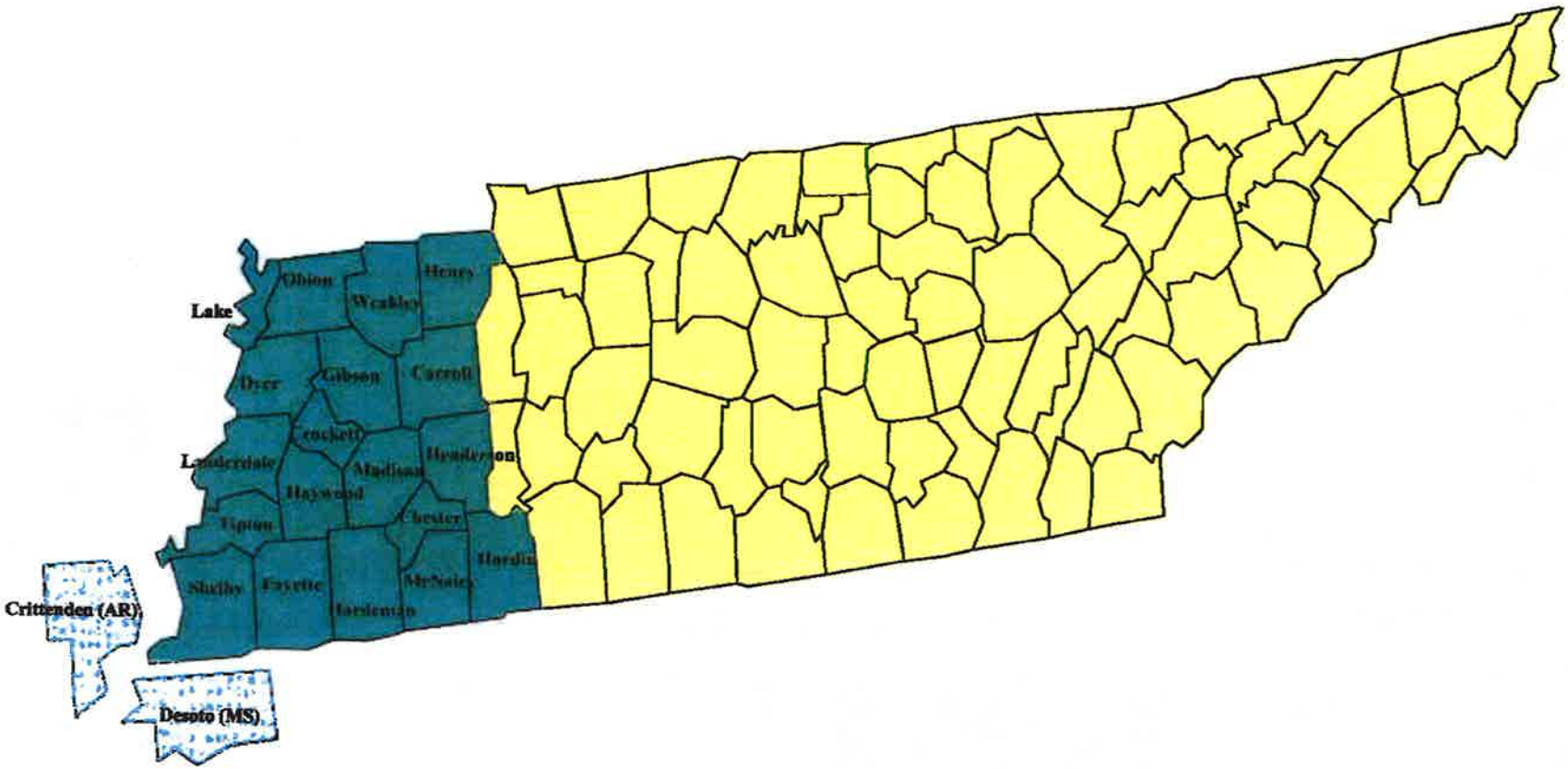
SUPPLEMENTAL #1
June 29, 2016
12:31 pm



NEW 48-BED INPATIENT PSYCHIATRIC ADDITION

87
Servery
Dining Room
Prep
Gym to Dining Renovation
Dining to Servery Renovation
Pedway to New Addition
Gymnasium
Storage
Storage
Gymnasium
Pedway
Pedway to Existing Dining
Shell Space
(Future PHP)
Mechanical/ Electrical
General Storage
Exam
Main/PHP Entr
Corridor
Shared N

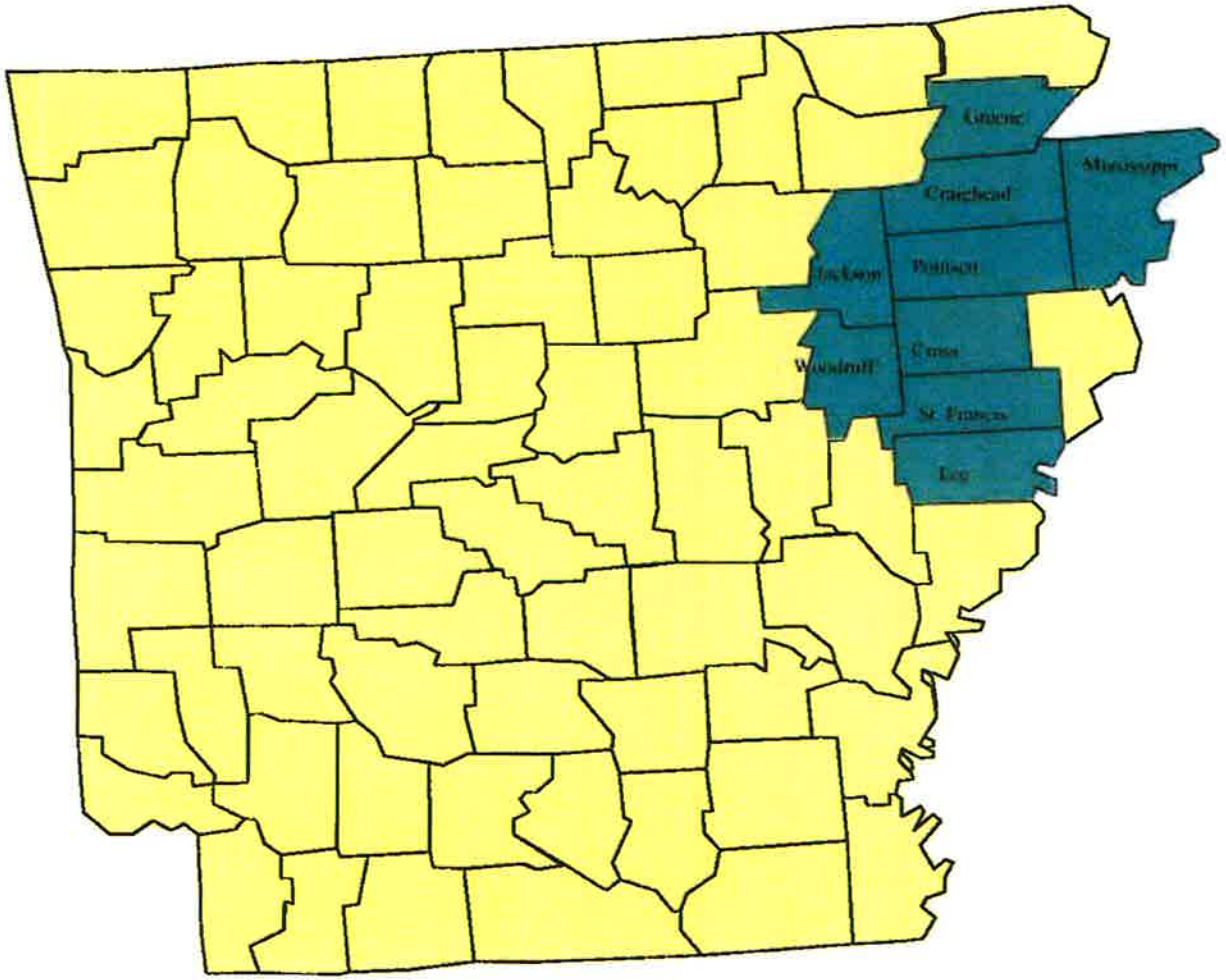
Attachment C.Need.3. Proposed Service Area



Counties in Primary and Secondary Service Areas (Shaded)

Primary: Carroll, Chester, Crockett, Dyer, Fayette, Gibson, Hardeman, Hardin, Haywood, Henderson, Henry, Lake, Lauderdale, Madison, McNairy, Obion, Shelby, Tipton, Weakley, Desoto (MS), Crittenden (AR)

Attachment C.Need.3. Proposed Service Area



Arkansas Counties in Secondary Service Area (Shaded):
Craighead, Cross, Greene, Jackson, Lee, Mississippi, Poinsett, St. Francis, Woodruff

STENGEL-HILL ARCHITECTURE

Attachment C. Economic Feasibility 1

Ms. Melanie Hill
Executive Director
State of Tennessee Health Services and Development Agency
Andrew Jackson Building, 9th Floor
502 Deaderick Street
Nashville, TN 37243

RE: Psychiatric Unit Addition
Compass Intervention Center – Universal Health Services, Inc.
Memphis, TN

08 June 2016

SHA.UHS1514

Ms. Hill,

The Project Team for the above referenced project has prepared the following supporting documentation for your review.

I have reviewed the project cost estimate provided by Compass Behavioral Healthcare in the CON Submission. Based on my experience and knowledge of the current healthcare market, it is my opinion that the anticipated construction cost of $7,679,726 appears to be reasonable for a project of this type and size.

During early design discussions, the possibility of adding to and renovating Compass' existing facility was discussed. However, this option was deemed infeasible due to code-required area limitations based on the existing facility's construction type. A configuration incorporating separate buildings connected to the existing Facility via pedway, along with limited renovations inside the existing Facility, was determined to be the most effective solution. This configuration also serves to better separate Inpatient and Residential patient populations.

Additionally, please note that the Project will be designed in compliance with all applicable State and Federal Codes and Regulations, including the following:

- Guidelines for the Design and Construction of Health Care Facilities
- Rules of the Tennessee Department of Health Board for Licensing Health Care Facilities
- International Building Code
- National Electric Code
- National Fire Protection Association (NFPA)
- Americans with Disabilities Act

95

613 [illegible] MAIN STREET LOUISVILLE, KENTUCKY 40202
tel: 502.893.1875 fax: 502.893.1876 www.stengelhill.com

Attachment C. Economic Feasibility 1

If you have any questions regarding this information, please do not hesitate to contact our office at your convenience.

Thank you.

Bradford P. Stengel, AIA
Architect
Tennessee Professional Architect License #00102523

BPS/mrs

UHS of Delaware, Inc.
a subsidiary of Universal Health Services

367 South Gulph Road
P.O. Box 61558
King of Prussia, PA 19406

P: 610-768-3300

Attachment C. Economic Feasibility 2

June 10, 2016

Melanie Hill
Executive Director
Health Services and Development Agency
502 Deaderick Street
Andrew Jackson Building, 9th Floor
Nashville, TN 37243

RE: Documentation of Availability of Funds for Proposed Addition of 48 new Acute care beds to Compass Intervention Center

Dear Melanie and Members of the Board:

As a requirement of the Certificate of Need process, I have been asked to document the availability of funds for the proposed 48-bed psychiatric inpatient addition to Compass Intervention Center.

Universal Health Services, Inc. ("UHS") is the ultimate parent company of the applicant entity, Keystone Memphis, LLC d/b/a Compass Intervention Center. Please see attached organizational chart. As such, UHS is very familiar with the financial status and performance of the applicant and regularly examines its books. Moreover, UHS has the legal authority to commit funds to its owned entities.

As Vice President and Treasurer, I am familiar with the organization's financial position. If the project is approved, I have the authority to commit funds for this project. The estimated total fixed capital cost of the Compass Intervention Center project is $12,125,378.

UHS intends to fund the project from cash on hand or Revolving Credit Agreement. Based on our current knowledge and belief; the expenditure will not adversely impact any other capital projects currently underway or planned for the immediate future. For verification of our ability to finance projects internally, please refer to the Debt Footnote in the UHS 2015 Audited Financial Statements, which shows available borrowing capacity of $461 million under our Revolver Credit Agreement. These financial statements are included as an Exhibit in this application. The available borrowing capacity under our Credit Agreement today remains sufficient to fund the project.

Attachment C. Economic Feasibility 2

In addition, UHS reserves the right to fund all or a portion of this project from cash, bond, or other credit instrument proceeds. UHS staff will make this determination based on market conditions at the time capital is actually required. I confirm that UHS now has sufficient capital to fund this project.

If you need any further information relating to financial operations, please do not hesitate to contact me.

Sincerely,

Cheryl K. Ramagano
Vice President and Treasurer

Attachment C. Economic Feasibility. 11

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(MARK ONE)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2016

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number 1-10765

UNIVERSAL HEALTH SERVICES, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	**23-2077891**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

UNIVERSAL CORPORATE CENTER
367 SOUTH GULPH ROAD
KING OF PRUSSIA, PENNSYLVANIA 19406
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (610) 768-3300

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐

Non-accelerated filer ☐ Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Common shares outstanding, as of April 30, 2016:

Class A	6,595,308
Class B	89,763,934
Class C	663,940
Class D	23,122

Attachment C. Economic Feasibility. 11

PART I. FINANCIAL INFORMATION

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(amounts in thousands, except per share amounts)
(unaudited)

	Three months ended March 31,	
	2016	2015
Net revenues before provision for doubtful accounts	$ 2,619,593	$ 2,380,101
Less: Provision for doubtful accounts	169,795	154,748
Net revenues	2,449,798	2,225,353
Operating charges:		
Salaries, wages and benefits	1,148,139	1,031,703
Other operating expenses	561,584	505,966
Supplies expense	255,250	238,741
Depreciation and amortization	104,049	98,998
Lease and rental expense	24,452	22,891
	2,093,474	1,898,299
Income from operations	356,324	327,054
Interest expense, net	29,600	30,037
Income before income taxes	326,724	297,017
Provision for income taxes	111,005	102,694
Net income	215,719	194,323
Less: Income attributable to noncontrolling interests	24,960	20,024
Net income attributable to UHS	$ 190,759	$ 174,299
Basic earnings per share attributable to UHS	$ 1.95	$ 1.76
Diluted earnings per share attributable to UHS	$ 1.93	$ 1.73
Weighted average number of common shares - basic	97,607	98,910
Add: Other share equivalents	1,288	1,737
Weighted average number of common shares and equivalents - diluted	98,895	100,647

The accompanying notes are an integral part of these consolidated financial statements.

Attachment C. Economic Feasibility. 11

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(amounts in thousands, unaudited)

	Three months ended March 31,	
	2016	2015
Net income	$ 215,719	$ 194,323
Other comprehensive income (loss):		
Unrealized derivative gains (losses) on cash flow hedges	(14,299)	4,132
Amortization of terminated hedge	(84)	(84)
Foreign currency translation adjustment	5,986	(418)
Other comprehensive income before tax	(8,397)	3,630
Income tax expense related to items of other comprehensive income	(5,360)	1,497
Total other comprehensive income, net of tax	(3,037)	2,133
Comprehensive income	212,682	196,456
Less: Comprehensive income attributable to noncontrolling interests	24,960	20,024
Comprehensive income attributable to UHS	$ 187,722	$ 176,432

The accompanying notes are an integral part of these consolidated financial statements.

Attachment C. Economic Feasibility. 11

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(amounts in thousands, unaudited)

	March 31, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 54,590	$ 61,228
Accounts receivable, net	1,374,737	1,302,429
Supplies	116,725	116,037
Deferred income taxes	0	135,120
Other current assets	89,386	103,490
Total current assets	1,635,438	1,718,304
Property and equipment	6,655,292	6,530,569
Less: accumulated depreciation	(2,774,740)	(2,694,591)
	3,880,552	3,835,978
Other assets:		
Goodwill	3,594,901	3,596,114
Deferred charges	16,235	16,688
Other	437,883	448,360
	$ 9,565,009	$ 9,615,444
Liabilities and Stockholders' Equity		
Current liabilities:		
Current maturities of long-term debt	$ 488,262	$ 62,722
Accounts payable and accrued liabilities	1,147,384	1,033,697
Federal and state taxes	49,794	3,987
Total current liabilities	1,685,440	1,100,406
Other noncurrent liabilities	295,684	278,834
Long-term debt	2,792,144	3,368,634
Deferred income taxes	178,947	315,900
Redeemable noncontrolling interests	261,492	242,509
Equity:		
UHS common stockholders' equity	4,289,218	4,249,647
Noncontrolling interest	62,084	59,514
Total equity	4,351,302	4,309,161
	$ 9,565,009	$ 9,615,444

The accompanying notes are an integral part of these consolidated financial statements.

Attachment C. Economic Feasibility. 11

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(amounts in thousands, unaudited)

	Three months ended March 31,	
	2016	2015
Cash Flows from Operating Activities:		
Net income	$ 215,719	$ 194,323
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation & amortization	104,049	98,998
Stock-based compensation expense	13,204	10,829
Changes in assets & liabilities, net of effects from acquisitions and dispositions:		
Accounts receivable	(79,962)	(96,972)
Accrued interest	688	1,117
Accrued and deferred income taxes	91,131	79,050
Other working capital accounts	98,972	(29,829)
Other assets and deferred charges	(5,803)	(234)
Other	20,911	17,807
Accrued insurance expense, net of commercial premiums paid	22,616	22,748
Payments made in settlement of self-insurance claims	(17,298)	(26,562)
Net cash provided by operating activities	464,227	271,275
Cash Flows from Investing Activities:		
Property and equipment additions, net of disposals	(127,214)	(89,276)
Acquisition of property and businesses	(19,543)	(34,500)
Net cash used in investing activities	(146,757)	(123,776)
Cash Flows from Financing Activities:		
Reduction of long-term debt	(166,671)	(158,871)
Additional borrowings	14,400	20,800
Financing costs	(44)	0
Repurchase of common shares	(171,042)	(28,767)
Dividends paid	(9,757)	(9,899)
Issuance of common stock	2,331	1,768
Excess income tax benefits related to stock-based compensation	11,002	20,807
Profit distributions to noncontrolling interests	(3,407)	(2,413)
Proceeds received from sale/leaseback of real property	0	12,551
Net cash used in financing activities	(323,188)	(144,024)
Effect of exchange rate changes on cash and cash equivalents	(920)	(466)
(Decrease) increase in cash and cash equivalents	(6,638)	3,009
Cash and cash equivalents, beginning of period	61,228	32,069
Cash and cash equivalents, end of period	$ 54,590	$ 35,078
Supplemental Disclosures of Cash Flow Information:		
Interest paid	$ 27,133	$ 27,158
Income taxes paid, net of refunds	$ 9,093	$ 2,876
Noncash purchases of property and equipment	$ 47,374	$ 33,082

The accompanying notes are an integral part of these consolidated financial statements.

Attachment C. Economic Feasibility. 11

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2016
(amounts in thousands)

	Parent	Guarantors	Non Guarantors	Consolidating Adjustments	Total Consolidated Amounts
Net revenues before provision for doubtful accounts	$ 0	$ 1,812,098	$ 815,838	$ (8,343)	$ 2,619,593
Less: Provision for doubtful accounts	0	107,680	62,115	0	169,795
Net revenues	0	1,704,418	753,723	(8,343)	2,449,798
Operating charges:					
Salaries, wages and benefits	0	824,295	323,844	0	1,148,139
Other operating expenses	0	387,677	181,980	(8,073)	561,584
Supplies expense	0	153,387	101,863	0	255,250
Depreciation and amortization	0	72,253	31,796	0	104,049
Lease and rental expense	0	15,294	9,428	(270)	24,452
	0	1,452,906	648,911	(8,343)	2,093,474
Income from operations	0	251,512	104,812	0	356,324
Interest expense	28,300	1,136	164	0	29,600
Interest (income) expense, affiliate	0	23,054	(23,054)	0	0
Equity in net income of consolidated affiliates	(208,227)	(70,175)	0	278,402	0
Income before income taxes	179,927	297,497	127,702	(278,402)	326,724
Provision for income taxes	(10,832)	97,979	23,858	0	111,005
Net income	190,759	199,518	103,844	(278,402)	215,719
Less: Income attributable to noncontrolling interests	0	0	24,960	0	24,960
Net income attributable to UHS	$ 190,759	$ 199,518	$ 78,884	$ (278,402)	$ 190,759

Attachment C. Economic Feasibility. 11

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2015
(amounts in thousands)

	Parent	Guarantors	Non Guarantors	Consolidating Adjustments	Total Consolidated Amounts
Net revenues before provision for doubtful accounts	$ 0	$ 1,661,612	$ 726,080	$ (7,591)	$ 2,380,101
Less: Provision for doubtful accounts	0	106,304	48,444	0	154,748
Net revenues	0	1,555,308	677,636	(7,591)	2,225,353
Operating charges:					
Salaries, wages and benefits	0	740,554	291,149	0	1,031,703
Other operating expenses	0	351,580	161,686	(7,300)	505,966
Supplies expense	0	141,361	97,380	0	238,741
Depreciation and amortization	0	69,645	29,353	0	98,998
Lease and rental expense	0	13,755	9,427	(291)	22,891
	0	1,316,895	588,995	(7,591)	1,898,299
Income from operations	0	238,413	88,641	0	327,054
Interest expense	28,512	1,227	298	0	30,037
Interest (income) expense, affiliate	0	23,054	(23,054)	0	0
Equity in net income of consolidated affiliates	(191,898)	(59,515)	0	251,413	0
Income before income taxes	163,386	273,647	111,397	(251,413)	297,017
Provision for income taxes	(10,913)	92,130	21,477	0	102,694
Net income	174,299	181,517	89,920	(251,413)	194,323
Less: Income attributable to noncontrolling interests	0	0	20,024	0	20,024
Net income attributable to UHS	$ 174,299	$ 181,517	$ 69,896	$ (251,413)	$ 174,299

Attachment C. Economic Feasibility. 11

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2016
(amounts in thousands)

	Parent	Guarantors	Non Guarantors	Consolidating Adjustments	Total Consolidated Amounts
Net income	$ 190,759	$ 199,518	$ 103,844	$ (278,402)	$ 215,719
Other comprehensive income (loss):					
Unrealized derivative gains on cash flow hedges	(14,299)	0	0	0	(14,299)
Amortization of terminated hedge	(84)	0	0	0	(84)
Foreign currency translation adjustment	5,986	5,986	0	(5,986)	5,986
Other comprehensive income before tax	(8,397)	5,986	0	(5,986)	(8,397)
Income tax expense related to items of other comprehensive income	(5,360)	0	0	0	(5,360)
Total other comprehensive income, net of tax	(3,037)	5,986	0	(5,986)	(3,037)
Comprehensive income	187,722	205,504	103,844	(284,388)	212,682
Less: Comprehensive income attributable to noncontrolling interests	0	0	24,960	0	24,960
Comprehensive income attributable to UHS	$ 187,722	$ 205,504	$ 78,884	$ (284,388)	$ 187,722

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2015
(amounts in thousands)

	Parent	Guarantors	Non Guarantors	Consolidating Adjustments	Total Consolidated Amounts
Net income	$ 174,299	$ 181,517	$ 89,920	$ (251,413)	$ 194,323
Other comprehensive income (loss):					
Unrealized derivative gains on cash flow hedges	4,132	0	0	0	4,132
Amortization of terminated hedge	(84)	0	0	0	(84)
Currency translation adjustment	(418)	(418)	0	418	(418)
Other comprehensive income before tax	3,630	(418)	0	418	3,630
Income tax expense related to items of other comprehensive income	1,497	0	0	0	1,497
Total other comprehensive income, net of tax	2,133	(418)	0	418	2,133
Comprehensive income	176,432	181,099	89,920	(250,995)	196,456
Less: Comprehensive income attributable to noncontrolling interests	0	0	20,024	0	20,024
Comprehensive income attributable to UHS	$ 176,432	$ 181,099	$ 69,896	$ (250,995)	$ 176,432

Attachment C. Economic Feasibility. 11

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING BALANCE SHEET
AS OF MARCH 31, 2016
(amounts in thousands)

	Parent	Guarantors	Non Guarantors	Consolidating Adjustments	Total Consolidated Amounts
Assets					
Current assets:					
Cash and cash equivalents	$ 0	$ 40,381	$ 14,209	$ 0	$ 54,590
Accounts receivable, net	0	957,504	417,233	0	1,374,737
Supplies	0	72,559	44,166	0	116,725
Other current assets	0	67,954	21,432	0	89,386
Total current assets	0	1,138,398	497,040	0	1,635,438
Investments in subsidiaries	7,974,369	1,946,590	0	(9,920,959)	0
Intercompany receivable	0	0	801,649	(801,649)	0
Intercompany note receivable	0	0	1,242,937	(1,242,937)	0
Property and equipment	0	4,782,483	1,872,809	0	6,655,292
Less accumulated depreciation	0	(1,897,760)	(876,980)	0	(2,774,740)
	0	2,884,723	995,829	0	3,880,552
Other assets:					
Goodwill	0	3,065,409	529,492	0	3,594,901
Deferred charges	6,708	5,586	3,941	0	16,235
Other	8,180	390,548	39,155	0	437,883
	$ 7,989,257	$ 9,431,254	$ 4,110,043	$(11,965,545)	$ 9,565,009
Liabilities and Stockholders' Equity					
Current liabilities:					
Current maturities of long-term debt	$ 485,862	$ 1,241	$ 1,159	$ 0	$ 488,262
Accounts payable and accrued liabilities	20,343	821,832	305,209	0	1,147,384
Federal and state taxes	49,794	0	0	0	49,794
Total current liabilities	555,999	823,073	306,368	0	1,685,440
Intercompany payable	186,164	615,485	0	(801,649)	0
Intercompany note payable	0	1,242,937	0	(1,242,937)	0
Other noncurrent liabilities	11,324	213,818	70,542	0	295,684
Long-term debt	2,767,605	16,468	8,071	0	2,792,144
Deferred income taxes	178,947	0	0	0	178,947
Redeemable noncontrolling interests	0	0	261,492	0	261,492
Equity:					
UHS common stockholders' equity	4,289,218	6,519,473	3,401,486	(9,920,959)	4,289,218
Noncontrolling interest	0	0	62,084	0	62,084
Total equity	4,289,218	6,519,473	3,463,570	(9,920,959)	4,351,302
	$ 7,989,257	$ 9,431,254	$ 4,110,043	$(11,965,545)	$ 9,565,009

Attachment C. Economic Feasibility. 11

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING BALANCE SHEET
AS OF DECEMBER 31, 2015
(amounts in thousands)

	Parent	Guarantors	Non Guarantors	Consolidating Adjustments	Total Consolidated Amounts
Assets					
Current assets:					
Cash and cash equivalents	$ 0	$ 47,192	$ 14,036	$ 0	$ 61,228
Accounts receivable, net	0	918,699	383,730	0	1,302,429
Supplies	0	72,499	43,538	0	116,037
Deferred income taxes	132,975	2,145	0		135,120
Other current assets	0	89,973	13,517	0	103,490
Total current assets	132,975	1,130,508	454,821	0	1,718,304
Investments in subsidiaries	7,760,156	1,876,415	0	(9,636,571)	0
Intercompany receivable	80,764	0	747,709	(828,473)	0
Intercompany note receivable	0	0	1,242,937	(1,242,937)	0
Property and equipment	0	4,722,050	1,808,519	0	6,530,569
Less: accumulated depreciation	0	(1,845,746)	(848,845)	0	(2,694,591)
	0	2,876,304	959,674	0	3,835,978
Other assets:					
Goodwill	0	3,070,061	526,053	0	3,596,114
Deferred charges	7,208	5,530	3,950	0	16,688
Other	14,251	394,998	39,111	0	448,360
	$ 7,995,354	$ 9,353,816	$ 3,974,255	$(11,707,981)	$ 9,615,444
Liabilities and Stockholders' Equity					
Current liabilities:					
Current maturities of long-term debt	$ 60,368	$ 1,223	$ 1,131	$ 0	$ 62,722
Accounts payable and accrued liabilities	19,996	744,137	269,564	0	1,033,697
Federal and state taxes	3,987	0	0	0	3,987
Total current liabilities	84,351	745,360	270,695	0	1,100,406
Intercompany payable	0	828,473	0	(828,473)	0
Intercompany note payable	0	1,242,937	0	(1,242,937)	0
Other noncurrent liabilities	1,982	206,287	70,565	0	278,834
Long-term debt	3,343,474	16,790	8,370	0	3,368,634
Deferred income taxes	315,900	0	0	0	315,900
Redeemable noncontrolling interests	0	0	242,509	0	242,509
Equity:					
UHS common stockholders' equity	4,249,647	6,313,969	3,322,602	(9,636,571)	4,249,647
Noncontrolling interest	0	0	59,514	0	59,514
Total equity	4,249,647	6,313,969	3,382,116	(9,636,571)	4,309,161
	$ 7,995,354	$ 9,353,816	$ 3,974,255	$(11,707,981)	$ 9,615,444

Attachment C. Economic Feasibility. 11

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2016
(amounts in thousands)

	Parent	Guarantors	Non Guarantors	Consolidating Adjustments	Total Consolidated Amounts
Net cash (used in) provided by operating activities	$ 52,278	$ 279,625	$ 132,324	$ 0	$ 464,227
Cash Flows from Investing Activities:					
Property and equipment additions, net of disposals	0	(61,718)	(65,496)	0	(127,214)
Acquisition of property and businesses	0	(10,506)	(9,037)	0	(19,543)
Net cash used in investing activities	0	(72,224)	(74,533)	0	(146,757)
Cash Flows from Financing Activities:					
Reduction of long-term debt	(166,096)	(304)	(271)	0	(166,671)
Additional borrowings	14,400	0	0	0	14,400
Financing costs	(44)	0	0	0	(44)
Repurchase of common shares	(171,042)	0	0	0	(171,042)
Dividends paid	(9,757)	0	0	0	(9,757)
Issuance of common stock	2,331	0	0	0	2,331
Excess income tax benefits related to stock-based compensation	11,002	0	0	0	11,002
Profit distributions to noncontrolling interests	0	0	(3,407)	0	(3,407)
Changes in intercompany balances with affiliates, net	266,928	(212,988)	(53,940)	0	0
Net cash provided by (used in) financing activities	(52,278)	(213,292)	(57,618)	0	(323,188)
Effect of exchange rate changes on cash and cash equivalents	0	(920)	0	0	(920)
(Decrease) increase in cash and cash equivalents	0	(6,811)	173	0	(6,638)
Cash and cash equivalents, beginning of period	0	47,192	14,036	0	61,228
Cash and cash equivalents, end of period	$ 0	$ 40,381	$ 14,209	$ 0	$ 54,590

Attachment C. Economic Feasibility. 11

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2015
(amounts in thousands)

	Parent	Guarantors	Non Guarantors	Consolidating Adjustments	Total Consolidated Amounts
Net cash provided by operating activities	$ 62,343	$ 124,046	$ 84,886	$ 0	$ 271,275
Cash Flows from Investing Activities:					
Property and equipment additions, net of disposals	0	(59,217)	(30,059)	0	(89,276)
Acquisition of property and businesses	0	(22,513)	(11,987)	0	(34,500)
Net cash used in investing activities	0	(81,730)	(42,046)	0	(123,776)
Cash Flows from Financing Activities:					
Reduction of long-term debt	(156,097)	(2,561)	(213)	0	(158,871)
Additional borrowings	20,800	0	0	0	20,800
Repurchase of common shares	(28,767)	0	0	0	(28,767)
Dividends paid	(9,899)	0	0	0	(9,899)
Issuance of common stock	1,768	0	0	0	1,768
Excess income tax benefits related to stock-based compensation	20,807	0	0	0	20,807
Profit distributions to noncontrolling interests	0	0	(2,413)	0	(2,413)
Proceeds received from sale/leaseback of real property	0	0	12,551		12,551
Changes in intercompany balances with affiliates, net	89,045	(45,555)	(43,490)	0	0
Net cash (used in) provided by financing activities	(62,343)	(48,116)	(33,565)	0	(144,024)
Effect of exchange rate changes on cash and cash equivalents	0	(466)	0	0	(466)
Increase in cash and cash equivalents	0	(6,266)	9,275	0	3,009
Cash and cash equivalents, beginning of period	0	21,784	10,285	0	32,069
Cash and cash equivalents, end of period	$ 0	$ 15,518	$ 19,560	$ 0	$ 35,078

(12) Recent Accounting Standards

In November, 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-17, "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes", which eliminates the guidance in Topic 740, Income Taxes, that required an entity to separate deferred tax liabilities and assets between current and noncurrent amounts in a classified balance sheet. The amendments require that all deferred tax liabilities and assets of the same tax jurisdiction or a tax filing group, as well as any related valuation allowance, be offset and presented as a single noncurrent amount in a classified balance sheet. The amendments are effective for public business entities for annual fiscal years beginning after December 15, 2016. We early adopted this standard effective January 1, 2016, on a prospective basis and did not adjust prior periods presented. The adoption of this standard had no impact on our Condensed Consolidated Statements of Income or Condensed Consolidated Statement of Cash Flows.

In April and August 2015, the FASB issued ASU No. 2015-03 and ASU No. 2015-15, "Interest- Imputation of Interest," respectively, to simplify the presentation of debt issuance costs. The standard requires debt issuance costs be presented in the balance sheet as a direct deduction from the carrying value of the debt liability. The FASB clarified that debt issuance costs related to line-of-credit arrangements can be presented as an asset and amortized over the term of the arrangement. The guidance is effective for annual fiscal periods beginning after December 15, 2015. We adopted this standard on January 1, 2016, on a retrospective basis and adjusted prior periods presented. In connection with the adoption of this ASU, debt issuance costs of $17 million as of March 31, 2016 and $19 million as of December 31, 2015 were reclassified from deferred charges to long-term debt. The adoption of this standard had no impact on our financial position or overall results of operations.

Revenue recognition: We record revenues and related receivables for health care services at the time the services are provided. Medicare and Medicaid revenues represented 33% and 36% of our net patient revenues during the three-month periods ended March 31, 2016 and 2015, respectively. Revenues from managed care entities, including health maintenance organizations and managed Medicare and Medicaid programs, accounted for 52% and 50% of our net patient revenues during the three-month periods ended March 31, 2016 and 2015, respectively.

Charity Care, Uninsured Discounts and Provision for Doubtful Accounts: See disclosure below in *Results of Operations, Acute Care Hospital Services- Charity Care, Uninsured Discounts and Provision for Doubtful Accounts.*

Self-Insured/Other Insurance Risks: We provide for self-insured risks, primarily general and professional liability claims and workers' compensation claims. Our estimated liability for self-insured professional and general liability claims is based on a number of factors including, among other things, the number of asserted claims and reported incidents, estimates of losses for these claims based on recent and historical settlement amounts, estimate of incurred but not reported claims based on historical experience, and estimates of amounts recoverable under our commercial insurance policies. All relevant information, including our own historical experience is used in estimating the expected amount of claims. While we continuously monitor these factors, our ultimate liability for professional and general liability claims could change materially from our current estimates due to inherent uncertainties involved in making this estimate. Our estimated self-insured reserves are reviewed and changed, if necessary, at each reporting date and changes are recognized currently as additional expense or as a reduction of expense. In addition, we also: (i) own a commercial health insurer headquartered in Reno, Nevada, and; (ii) maintain self-insured employee benefits programs for employee healthcare and dental claims. The ultimate costs related to these programs/operations include expenses for claims incurred and paid in addition to an accrual for the estimated expenses incurred in connection with claims incurred but not yet reported. Given our significant insurance-related exposure, there can be no assurance that a sharp increase in the number and/or severity of claims asserted against us will not have a material adverse effect on our future results of operations.

The total accrual for our professional and general liability claims and workers' compensation claims was $277 million as of March 31, 2016, of which $82 million is included in current liabilities. The total accrual for our professional and general liability claims and workers' compensation claims was $271 million as of December 31, 2015, of which $82 million is included in current liabilities.

Recent Accounting Standards: For a summary of accounting standards, please see *Note 12 to the Consolidated Financial Statements*, as included herein.

Results of Operations

Three-month periods ended March 31, 2016 and 2015:

The following table summarizes our results of operations and is used in the discussion below for the three-month periods ended March 31, 2016 and 2015 (dollar amounts in thousands):

	Three months ended March 31, 2016		Three months ended March 31, 2015	
	Amount	% of Net Revenues	Amount	% of Net Revenues
Net revenues before provision for doubtful accounts	$2,619,593		$2,380,101	
Less: Provision for doubtful accounts	169,795		154,748	
Net revenues	2,449,798	100.0%	2,225,353	100.0%
Operating charges:				
Salaries, wages and benefits	1,148,139	46.9%	1,031,703	46.4%
Other operating expenses	561,584	22.9%	505,966	22.7%
Supplies expense	255,250	10.4%	238,741	10.7%
Depreciation and amortization	104,049	4.2%	98,998	4.4%
Lease and rental expense	24,452	1.0%	22,891	1.0%
Subtotal-operating expenses	2,093,474	85.5%	1,898,299	85.3%
Income from operations	356,324	14.5%	327,054	14.7%
Interest expense, net	29,600	1.2%	30,037	1.3%
Income before income taxes	326,724	13.3%	297,017	13.3%
Provision for income taxes	111,005	4.5%	102,694	4.6%
Net income	215,719	8.8%	194,323	8.7%
Less: Income attributable to noncontrolling interests	24,960	1.0%	20,024	0.9%
Net income attributable to UHS	$ 190,759	7.8%	$ 174,299	7.8%

Net revenues increased 10%, or $224 million, to $2.45 billion during the three-month period ended March 31, 2016 as compared to $2.23 billion during the first quarter of 2015. The net increase was primarily attributable to: (i) a $173 million or 8% increase in net revenues generated from our acute care hospital services and behavioral health services operated during both periods (which we refer to as "same facility"), and; (ii) $51 million of other combined revenue increases consisting primarily of the revenues generated at 4 behavioral health care hospitals acquired in the U.K. during the third quarter of 2015 and 4 inpatient facilities and 8 outpatient centers acquired during the third quarter of 2015 as a result of our acquisition of Foundations Recovery Network, LLC.

Income before income taxes (before deduction for income attributable to noncontrolling interests) increased $30 million to $327 million during the three-month period ended March 31, 2016 as compared to $297 million during the comparable quarter of the prior year. The net increase in our income before income taxes during the first quarter of 2016, as compared to the comparable quarter of 2015, was due to:

a. an increase of $31 million at our acute care facilities as discussed below in Acute Care Hospital Services;

b. an increase of $12 million at our behavioral health care facilities, as discussed below in Behavioral Health Services, and;

c. $13 million of other combined net decreases.

Net income attributable to UHS increased $16 million to $191 million during the three-month period ended March 31, 2016 as compared to $174 million during the comparable prior year quarter. The increase during the first quarter of 2016, as compared to the comparable prior year quarter, consisted of:

- an increase of $30 million in income before income taxes, as discussed above;
- a decrease of $5 million resulting from an increase in the income attributable to noncontrolling interests, and;
- a decrease of $8 million resulting from an increase in the provision for income taxes recorded on the $25 million increase in pre-tax income ($30 million increase in income before income taxes less $5 million increase in income attributable to noncontrolling interests).

Attachment C. Economic Feasibility. 11

Acute Care Hospital Services

Same Facility Basis Acute Care Hospital Services

We believe that providing our results on a "Same Facility" basis, which includes the operating results for facilities and businesses operated in both the current year and prior year periods, is helpful to our investors as a measure of our operating performance. Our Same Facility results also neutralize the impact of the EHR applications, the effect of items that are non-operational in nature including items such as, but not limited to, gains on sales of assets and businesses, impacts of settlements, legal judgments and lawsuits and other amounts that may be reflected in the current or prior year financial statements that relate to prior periods. Our Same Facility basis results reflected on the tables below also exclude from net revenues and other operating expenses, provider tax assessments incurred in each period as discussed below *Sources of Revenue-Various State Medicaid Supplemental Payment Programs.* However, these provider tax assessments are included in net revenues and other operating expenses as reflected in the table below under *All Acute Care Hospitals*. The provider tax assessments had no impact on the income before income taxes as reflected on the tables below since the amounts offset between net revenues and other operating expenses.

The following table summarizes the results of operations for our acute care facilities on a same facility basis and is used in the discussion below for the three-month periods ended March 31, 2016 and 2015 (dollar amounts in thousands):

	Three months ended March 31, 2016		Three months ended March 31, 2015	
	Amount	% of Net Revenues	Amount	% of Net Revenues
Net revenues before provision for doubtful accounts	$ 1,408,961		$ 1,257,470	
Less: Provision for doubtful accounts	139,755		124,350	
Net revenues	1,269,206	100.0%	1,133,120	100.0%
Operating charges:				
Salaries, wages and benefits	509,396	40.1%	455,944	40.2%
Other operating expenses	285,046	22.5%	253,097	22.3%
Supplies expense	206,768	16.3%	191,282	16.9%
Depreciation and amortization	59,046	4.7%	57,080	5.0%
Lease and rental expense	13,042	1.0%	12,553	1.1%
Subtotal-operating expenses	1,073,298	84.6%	969,956	85.6%
Income from operations	195,908	15.4%	163,164	14.4%
Interest expense, net	821	0.1%	1,017	0.1%
Income before income taxes	$ 195,087	15.4%	$ 162,147	14.3%

Three-month periods ended March 31, 2016 and 2015:

During the three-month period ended March 31, 2016, as compared to the comparable prior year quarter, net revenues from our acute care hospital services, on a same facility basis, increased $136 million or 12.0%. Income before income taxes (and before income attributable to noncontrolling interests) increased $33 million or 20% to $195 million or 15.4% of net revenues during the first quarter of 2016 as compared to $162 million or 14.3% of net revenues during the comparable prior year quarter.

During the three-month period ended March 31, 2016, net revenue per adjusted admission increased 3.0% and net revenue per adjusted patient day increased 7.3%, as compared to the comparable quarter of the prior year. During the three-month period ended March 31, 2016, as compared to the comparable prior year quarter, inpatient admissions to our acute care hospitals increased 6.5% and adjusted admissions (adjusted for outpatient activity) increased 7.8%. Patient days at these facilities increased 2.3% and adjusted patient days increased 3.5% during the three-month period ended March 31, 2016 as compared to the comparable prior year quarter. The average length of inpatient stay at these facilities was 4.7 days and 4.9 days during the three-month periods ended March 31, 2016 and 2015, respectively. The occupancy rate, based on the average available beds at these facilities, was 63% during each of the three-month periods ended March 31, 2016 and 2015.

All Acute Care Hospitals

The following table summarizes the results of operations for all our acute care operations during the three-month periods ended March 31, 2016 and 2015. These amounts include: (i) our acute care results on a same facility basis, as indicated above; (ii) the impact of the implementation of EHR applications at our acute care hospitals; (iii) the impact of provider tax assessments which increased net revenues and other operating expenses but had no impact on income before income taxes, and; (iv) certain other amounts. Dollar amounts below are reflected in thousands.

Attachment C. Economic Feasibility. 11

	Three months ended March 31, 2016		Three months ended March 31, 2015	
	Amount	% of Net Revenues	Amount	% of Net Revenues
Net revenues before provision for doubtful accounts	$ 1,426,902		$ 1,270,290	
Less: Provision for doubtful accounts	139,755		124,350	
Net revenues	1,287,147	100.0%	1,145,940	100.0%
Operating charges:				
Salaries, wages and benefits	512,022	39.8%	456,772	39.9%
Other operating expenses	299,961	23.3%	262,655	22.9%
Supplies expense	206,768	16.1%	191,282	16.7%
Depreciation and amortization	68,615	5.3%	66,461	5.8%
Lease and rental expense	13,042	1.0%	12,553	1.1%
Subtotal-operating expenses	1,100,408	85.5%	989,723	86.4%
Income from operations	186,739	14.5%	156,217	13.6%
Interest expense, net	821	0.1%	1,017	0.1%
Income before income taxes	$ 185,918	14.4%	$ 155,200	13.5%

Three-month periods ended March 31, 2016 and 2015:

Income before income taxes increased $31 million or 20% to $186 million during the first quarter of 2016 as compared to $155 million during the first quarter of 2015. The increase in income before income taxes at our acute care facilities resulted from:

- a $33 million increase at our acute care facilities on a same facility basis, as discussed above, and;
- a decrease of $2 million from other combined net changes.

Charity Care, Uninsured Discounts and Provision for Doubtful Accounts: Collection of receivables from third-party payers and patients is our primary source of cash and is critical to our operating performance. Our primary collection risks relate to uninsured patients and the portion of the bill which is the patient's responsibility, primarily co-payments and deductibles. We estimate our provisions for doubtful accounts based on general factors such as payer mix, the agings of the receivables and historical collection experience. We routinely review accounts receivable balances in conjunction with these factors and other economic conditions which might ultimately affect the collectability of the patient accounts and make adjustments to our allowances as warranted. At our acute care hospitals, third party liability accounts are pursued until all payment and adjustments are posted to the patient account. For those accounts with a patient balance after third party liability is finalized or accounts for uninsured patients, the patient receives statements and collection letters. Our hospitals establish a partial reserve for self-pay accounts in the allowance for doubtful accounts for both unbilled balances and those that have been billed and are under 90 days old. All self-pay accounts are fully reserved at 90 days from the date of discharge. Third party liability accounts are fully reserved in the allowance for doubtful accounts when the balance ages past 180 days from the date of discharge. Patients that express an inability to pay are reviewed for potential sources of financial assistance including our charity care policy. If the patient is deemed unwilling to pay, the account is written-off as bad debt and transferred to an outside collection agency for additional collection effort.

Historically, a significant portion of the patients treated throughout our portfolio of acute care hospitals are uninsured patients which, in part, has resulted from patients who are employed but do not have health insurance or who have policies with relatively high deductibles. Patients treated at our hospitals for non-elective services, who have gross income less than 400% of the federal poverty guidelines, are deemed eligible for charity care. The federal poverty guidelines are established by the federal government and are based on income and family size. Because we do not pursue collection of amounts that qualify as charity care, they are not reported in our net revenues or in our accounts receivable, net.

A portion of the accounts receivable at our acute care facilities are comprised of Medicaid accounts that are pending approval from third-party payers but we also have smaller amounts due from other miscellaneous payers such as county indigent programs in certain states. Our patient registration process includes an interview of the patient or the patient's responsible party at the time of registration. At that time, an insurance eligibility determination is made and an insurance plan code is assigned. There are various pre-established insurance profiles in our patient accounting system which determine the expected insurance reimbursement for each patient based on the insurance plan code assigned and the services rendered. Certain patients may be classified as Medicaid pending at registration based upon a screening evaluation if we are unable to definitively determine if they are currently Medicaid eligible. When a patient is registered as Medicaid eligible or Medicaid pending, our patient accounting system records net revenues for services provided to that

patient based upon the established Medicaid reimbursement rates, subject to the ultimate disposition of the patient's Medicaid eligibility. When the patient's ultimate eligibility is determined, reclassifications may occur which impacts the reported amounts in future periods for the provision for doubtful accounts and other accounts such as Medicaid pending. Although the patient's ultimate eligibility determination may result in amounts being reclassified among these accounts from period to period, these reclassifications did not have a material impact on our results of operations during the three-month periods ended March 31, 2016 and 2015 since our facilities make estimates at each financial reporting period to reserve for amounts that are deemed to be uncollectible.

We also provide discounts to uninsured patients (included in "uninsured discounts" amounts below) who do not qualify for Medicaid or charity care. Because we do not pursue collection of amounts classified as uninsured discounts, they are not reported in our net revenues or in our net accounts receivable. In implementing the discount policy, we first attempt to qualify uninsured patients for governmental programs, charity care or any other discount program. If an uninsured patient does not qualify for these programs, the uninsured discount is applied. Our accounts receivable are recorded net of allowance for doubtful accounts of $366 million and $399 million at March 31, 2016 and December 31, 2015, respectively.

The following tables show the amounts recorded at our acute care hospitals for charity care and uninsured discounts, based on charges at established rates, for the three-month periods ended March 31, 2016 and 2015:

Uncompensated care:

Amounts in millions	Three Months Ended			
	March 31, 2016	%	March 31, 2015	%
Charity care	$ 186	54%	$ 132	46%
Uninsured discounts	159	46%	155	54%
Total uncompensated care	$ 345	100%	$ 287	100%

As reflected on the table above in All Acute Care Hospitals, the provision for doubtful accounts at our acute care hospitals amounted to approximately $140 million and $124 million during the three-month periods ended March 31, 2016 and 2015, respectively. During the three-month period ended March 31, 2016, as compared to the comparable quarter of 2015, our acute care hospitals experienced an increase in the aggregate of charity care, uninsured discounts and provision for doubtful accounts as a percentage of gross charges.

Estimated cost of providing uncompensated care:

The estimated costs of providing uncompensated care as reflected below were based on a calculation which multiplied the percentage of operating expenses for our acute care hospitals to gross charges for those hospitals by the above-mentioned total uncompensated care amounts. Amounts included in the provision for doubtful accounts, as mentioned above, are not included in the calculation of estimated costs of providing uncompensated care. The percentage of cost to gross charges is calculated based on the total operating expenses for our acute care facilities divided by gross patient service revenue for those facilities.

Estimated cost of providing uncompensated care

Amounts in millions	Three Months Ended	
	March 31, 2016	March 31, 2015
Estimated cost of providing charity care	$ 26	$ 18
Estimated cost of providing uninsured discounts related care	22	22
Estimated cost of providing uncompensated care	$ 48	$ 40

Behavioral Health Services

Our same facility basis results which include the operating results for facilities and businesses operated in both the current year and prior year period, neutralize the effect of items that are non-operational in nature including items such as, but not limited to, gains on sales of assets and businesses, impacts of settlements, legal judgments and lawsuits and other amounts that may be reflected in the current or prior year financial statements that relate to prior periods. Our same facility basis results reflected on the tables below also exclude from net revenues and other operating expenses, provider tax assessments incurred in each period as discussed below *Sources of Revenue-Various State Medicaid Supplemental Payment Programs.* However, these provider tax assessments are included in net revenues and other operating expenses as reflected in the table below under *All Behavioral Health Care Facilities*. The provider tax assessments had no impact on the income before income taxes as reflected on the tables below since the amounts offset between net revenues and other operating expenses.

The following table summarizes the results of operations for our behavioral health care facilities, on a same facility basis, and is used in the discussions below for the three-month periods ended March 31, 2016 and 2015 (dollar amounts in thousands):

Same Facility—Behavioral Health

	Three months ended March 31, 2016		Three months ended March 31, 2015	
	Amount	% of Net Revenues	Amount	% of Net Revenues
Net revenues before provision for doubtful accounts	$1,119,045		$1,083,119	
Less: Provision for doubtful accounts	29,335		30,266	
Net revenues	1,089,710	100.0%	1,052,853	100.0%
Operating charges:				
Salaries, wages and benefits	535,762	49.2%	507,967	48.2%
Other operating expenses	203,973	18.7%	199,459	18.9%
Supplies expense	46,498	4.3%	46,107	4.4%
Depreciation and amortization	31,448	2.9%	29,447	2.8%
Lease and rental expense	9,822	0.9%	9,439	0.9%
Subtotal-operating expenses	827,503	75.9%	792,419	75.3%
Income from operations	262,207	24.1%	260,434	24.7%
Interest expense, net	452	0.0%	475	0.0%
Income before income taxes	$ 261,755	24.0%	$ 259,959	24.7%

Three-month periods ended March 31, 2016 and 2015:

On a same facility basis during the first quarter of 2016, as compared to the first quarter of 2015, net revenues at our behavioral health care facilities increased 4% or $37 million to $1.09 billion from $1.05 billion. Income before income taxes increased $2 million or 1% to $262 million or 24.0% of net revenues during the three-month period ended March 31, 2016, as compared to $260 million or 24.7% of net revenues during the comparable prior year quarter.

During the three-month period ended March 31, 2016, net revenue per adjusted admission increased 1.8% and net revenue per adjusted patient day increased 2.2%, as compared to the comparable quarter of 2015. On a same facility basis, inpatient admissions and adjusted admissions to our behavioral health facilities increased 1.6% and 1.4%, respectively, during the three-month period ended March 31, 2016 as compared to the comparable quarter of 2015. Patient days and adjusted patient days increased 1.2% and 1.0%, respectively, during the three-month period ended March 31, 2016 as compared to the comparable prior year quarter. The average length of inpatient stay at these facilities remained unchanged at 12.7 days during each of the three-month periods ended March 31, 2016 and 2015. The occupancy rate, based on the average available beds at these facilities, was 76% and 77% during the three-month periods ended March 31, 2016 and 2015, respectively.

All Behavioral Health Care Facilities

Attachment C. Economic Feasibility. 11

The following table summarizes the results of operations for all our behavioral health care facilities during the three-month periods ended March 31, 2016 and 2015 which includes our behavioral health results on a same facility basis, the impact of the facilities acquired or opened within the previous twelve months, and the impact of provider tax assessments which increased net revenues and other operating expenses but had no impact on income before income taxes (dollar amounts in thousands):

	Three months ended March 31, 2016		Three months ended March 31, 2015	
	Amount	% of Net Revenues	Amount	% of Net Revenues
Net revenues before provision for doubtful accounts	$1,191,090		$1,106,701	
Less: Provision for doubtful accounts	30,044		30,356	
Net revenues	1,161,046	100.0%	1,076,345	100.0%
Operating charges:				
Salaries, wages and benefits	564,872	48.7%	513,875	47.7%
Other operating expenses	237,023	20.4%	221,179	20.5%
Supplies expense	48,336	4.2%	46,545	4.3%
Depreciation and amortization	33,532	2.9%	30,706	2.9%
Lease and rental expense	11,262	1.0%	10,123	0.9%
Subtotal-operating expenses	895,025	77.1%	822,428	76.4%
Income from operations	266,021	22.9%	253,917	23.6%
Interest expense, net	444	0.0%	475	0.0%
Income before income taxes	$ 265,577	22.9%	$ 253,442	23.5%

Three-month periods ended March 31, 2016 and 2015:

Income before income taxes increased $12 million or 5% to $266 million during the first quarter of 2016 as compared to $253 million during the first quarter of 2015. The increase in income before income taxes at our behavioral health care facilities resulted from:

- a $2 million increase at our behavioral health care facilities on a same facility basis, as discussed above, and;
- an increase of $10 million from other combined net changes, including the income generated at 4 behavioral health care facilities acquired in the U.K. during the third quarter of 2015 and 4 inpatient facilities and 8 outpatient centers acquired during the third quarter of 2015 as a result of our acquisition of Foundations Recovery Network, LLC.

Sources of Revenue

Overview: We receive payments for services rendered from private insurers, including managed care plans, the federal government under the Medicare program, state governments under their respective Medicaid programs and directly from patients.

Hospital revenues depend upon inpatient occupancy levels, the medical and ancillary services and therapy programs ordered by physicians and provided to patients, the volume of outpatient procedures and the charges or negotiated payment rates for such services. Charges and reimbursement rates for inpatient routine services vary depending on the type of services provided (e.g., medical/surgical, intensive care or behavioral health) and the geographic location of the hospital. Inpatient occupancy levels fluctuate for various reasons, many of which are beyond our control. The percentage of patient service revenue attributable to outpatient services has generally increased in recent years, primarily as a result of advances in medical technology that allow more services to be provided on an outpatient basis, as well as increased pressure from Medicare, Medicaid and private insurers to reduce hospital stays and provide services, where possible, on a less expensive outpatient basis. We believe that our experience with respect to our increased outpatient levels mirrors the general trend occurring in the health care industry and we are unable to predict the rate of growth and resulting impact on our future revenues.

Patients are generally not responsible for any difference between customary hospital charges and amounts reimbursed for such services under Medicare, Medicaid, some private insurance plans, and managed care plans, but are responsible for services not covered by such plans, exclusions, deductibles or co-insurance features of their coverage. The amount of such exclusions, deductibles and co-insurance has generally been increasing each year. Indications from recent federal and state legislation are that this trend will continue. Collection of amounts due from individuals is typically more difficult than from governmental or business payers which unfavorably impacts the collectability of our patient accounts.

The following table shows the approximate percentages of net patient revenue for the three-month periods ended March 31, 2016 and 2015 presented on: (i) a combined basis for both our acute care and behavioral health facilities; (ii) for our acute care facilities only, and; (iii) for our behavioral health facilities only. Net patient revenue is defined as revenue from all sources after deducting contractual allowances and discounts from established billing rates, which we derived from various sources of payment for the periods indicated.

Acute Care and Behavioral Health Facilities Combined	Percentage of Net Patient Revenues Three Months Ended March 31,	
	2016	2015
Third Party Payors:		
Medicare	20%	22%
Medicaid	13%	14%
Managed Care (HMO and PPOs)	52%	50%
Other Sources	15%	14%
Total	100%	100%

Acute Care Facilities	Percentage of Net Patient Revenues Three Months Ended March 31,	
	2016	2015
Third Party Payors:		
Medicare	26%	27%
Medicaid	6%	7%
Managed Care (HMO and PPOs)	62%	60%
Other Sources	6%	6%
Total	100%	100%

Behavioral Health Facilities	Percentage of Net Patient Revenues Three Months Ended March 31,	
	2016	2015
Third Party Payors:		
Medicare	14%	17%
Medicaid	19%	21%
Managed Care (HMO and PPOs)	41%	40%
Other Sources	26%	22%
Total	100%	100%

Medicare: Medicare is a federal program that provides certain hospital and medical insurance benefits to persons aged 65 and over, some disabled persons and persons with end-stage renal disease. All of our acute care hospitals and many of our behavioral health centers are certified as providers of Medicare services by the appropriate governmental authorities. Amounts received under the Medicare program are generally significantly less than a hospital's customary charges for services provided. Since a substantial portion of our revenues will come from patients under the Medicare program, our ability to operate our business successfully in the future will depend in large measure on our ability to adapt to changes in this program.

Under the Medicare program, for inpatient services, our general acute care hospitals receive reimbursement under the inpatient prospective payment system ("IPPS"). Under the IPPS, hospitals are paid a predetermined fixed payment amount for each hospital discharge. The fixed payment amount is based upon each patient's Medicare severity diagnosis related group ("MS-DRG"). Every MS-DRG is assigned a payment rate based upon the estimated intensity of hospital resources necessary to treat the average patient with that particular diagnosis. The MS-DRG payment rates are based upon historical national average costs and do not consider the actual costs incurred by a hospital in providing care. This MS-DRG assignment also affects the predetermined capital rate paid with each MS-DRG. The MS-DRG and capital payment rates are adjusted annually by the predetermined geographic adjustment factor for the geographic region in which a particular hospital is located and are weighted based upon a statistically normal distribution of severity. While we generally will not receive payment from Medicare for inpatient services, other than the MS-DRG payment, a hospital may qualify for an "outlier" payment if a particular patient's treatment costs are extraordinarily high and exceed a specified threshold.

MS-DRG rates are adjusted by an update factor each federal fiscal year, which begins on October 1. The index used to adjust the MS-DRG rates, known as the "hospital market basket index," gives consideration to the inflation experienced by hospitals in purchasing goods and services. Generally, however, the percentage increases in the MS-DRG payments have been lower than the projected increase in the cost of goods and services purchased by hospitals.

In April, 2016, CMS published its IPPS 2017 proposed payment rule which provides for a 2.8% market basket increase to the base Medicare MS-DRG blended rate. When statutorily mandated budget neutrality factors, annual geographic wage index updates, documenting and coding adjustments and Health Care Reform mandated adjustments are considered, without consideration for the decreases related to the required Medicare Disproportionate Share Hospital ("DSH") payment changes and increase to the Medicare Outlier threshold, the overall increase in IPPS payments would approximate 0.9%. Including the estimated decreases to our DSH payments (approximating 0.5%), we estimate our overall decrease from the proposed IPPS 2017 rule (covering the period of October 1, 2016 through September 30, 2017) will approximate -0.1%. This projected impact from the IPPS 2017 proposed rule includes both the impact of the American Taxpayer Relief Act of 2012 documentation and coding adjustment and the required changes to the DSH payments related to the traditional Medicare fee for service, however, it excludes the impact of the sequestration reductions related to the Budget Control Act of 2011, and Bipartisan Budget Act of 2015, as discussed below.

In July, 2015, CMS published its IPPS 2016 final payment rule which provides for a 2.4% market basket increase to the base Medicare MS-DRG blended rate. When statutorily mandated budget neutrality factors, annual geographic wage index updates, documenting and coding adjustments and Health Care Reform mandated adjustments are considered, without consideration for the decreases related to the required Medicare Disproportionate Share Hospital ("DSH") payment changes and decrease to the Medicare Outlier threshold, the overall increase in IPPS payments would approximate 1.1%. Including the estimated decreases to our Medicare DSH payments (approximating 1.6%), we estimate our overall decrease from the final IPPS 2016 rule (covering the period of October 1, 2015 through September 30, 2016) will approximate -0.1%. This projected impact from the IPPS 2016 final rule includes both the impact of the American Taxpayer Relief Act of 2012 documentation and coding adjustment and the required changes to the DSH payments related to the traditional Medicare fee for service, however, it excludes the impact of the sequestration reductions related to the Budget Control Act of 2011, and Bipartisan Budget Act of 2015, as discussed below.

In August, 2014, CMS published its IPPS 2015 payment rule which provides for a 2.9% market basket increase to the base Medicare MS-DRG blended rate. When statutorily mandated budget neutrality factors, annual geographic wage index updates, documenting and coding adjustments and Health Care Reform mandated adjustments are considered, without consideration for the decreases related to the required DSH payment changes and increase to the Medicare Outlier threshold, the overall increase in IPPS payments would approximate 0.6%. Including the estimated decreases to our DSH payments (–1.9%) and Medicare Outlier threshold (–0.6%), we estimate our overall decrease from the IPPS 2015 rule (covering the period of October 1, 2014 through September 30, 2015) will approximate (–1.9%), or approximately $13 million annually. This projected impact from the IPPS 2015 rule includes both the impact of the American Taxpayer Relief Act of 2012 documentation and coding adjustment and the required changes to the DSH payments related to the traditional Medicare fee for service, however, it excludes the impact of the sequestration reductions related to the Budget Control Act of 2011, as discussed below.

In August, 2013, CMS published its final IPPS 2014 payment rule which expanded CMS's policy under which it defines inpatient admissions to include the use of an objective time of care standard. Specifically, it would require Medicare's external review contractors to presume that hospital inpatient admissions are reasonable and necessary when beneficiaries receive a physician order for admission and receive medically necessary services for at least two midnights (the "Two Midnight" rule). Correspondingly, under the final rule, CMS presumes that hospital services spanning less than two midnights should have been provided on an outpatient basis and paid under Medicare Part B unless the medical record contains clear documentation supporting the physician's order and an expectation that the Medicare beneficiary would need medically necessary care for more than two midnights, or is receiving services which CMS designates as inpatient only. In April, 2015, Congress voted to extend an enforcement moratorium on the Two Midnight rule through the end of fiscal year 2015. Although the prohibition of recovery auditor patient status reviews expired on October 1, 2015, CMS did not approve recovery auditors to conduct patient status reviews for admission dates through December 31, 2015.

In October, 2015 as part of the 2016 Medicare Outpatient Prospective Payment System ("OPPS") final rule (additional related disclosure below), CMS proposed to allow payment for one-midnight stays under the Medicare Part A benefit on a case-by case basis for rare and unusual exceptions based the presence of certain clinical factors. CMS also announced in the final rule that, effective October 1, 2015, Quality Improvement Organizations ("QIOs") will conduct reviews of short inpatient stay reviews rather than Medicare Administrative Contractors ("MACs"). Additionally, CMS also announced that RACs resumed patient status reviews for claims with admission dates of January 1, 2016 or later, and the agency indicates that RACs will conduct these reviews focused on providers with high denial rates that are referred by the QIOs.

In its IPPS 2017 proposed payment rule, CMS has proposed to: (i) reverse the Two-Midnight rule's 0.2% reduction in hospital payments, and; (ii) implement a temporary one-time increase of 0.6% in FFY2017 payments to offset cuts in the three preceding fiscal years.

In August, 2011, the Budget Control Act of 2011 (the "2011 Act") was enacted into law. Included in this law are the imposition of annual spending limits for most federal agencies and programs aimed at reducing budget deficits by $917 billion between 2012 and 2021, according to a report released by the Congressional Budget Office. Among its other provisions, the law established a bipartisan Congressional committee, known as the Joint Committee, which was responsible for developing recommendations aimed at reducing future federal budget deficits by an additional $1.5 trillion over 10 years. The Joint Committee was unable to reach an agreement by the November 23, 2011 deadline and, as a result, across-the-board cuts to discretionary, national defense and Medicare spending were implemented on March 1, 2013 resulting in Medicare payment reductions of up to 2% per fiscal year. The Bipartisan Budget Act of 2015, enacted on November 2, 2015, continued the 2% reductions to Medicare reimbursement imposed under the 2011 Act. For federal fiscal year 2015, the aggregate annual sequestration reduction to our Medicare net revenues was approximately $36 million with a uniform percentage reduction across all Medicare programs.

On January 2, 2013 ATRA was enacted which, among other things, includes a requirement for CMS to recoup $11 billion from hospitals from Medicare IPPS rates during federal fiscal years 2014 to 2017. The recoupment relates to IPPS documentation and coding adjustments for the period 2008 to 2013 for which adjustments were not previously applied by CMS. Both the 2014 and 2015 IPPS final rules include a -0.8% recoupment adjustment. CMS has included the same 0.8% recoupment adjustment in fiscal year 2016 and has proposed to include a 1.5% recoupment adjustment in federal fiscal year 2017 in order to recover the entire $11 billion. This adjustment is reflected in the IPPS estimated impact amounts noted above. On April 16, 2015, the Medicare Access and CHIP Reauthorization Act of 2015 was enacted and an anticipated 3.2% payment increase in 2018 is scheduled to be phased in at 0.5% per year over 6 years beginning in fiscal year 2018.

Inpatient services furnished by psychiatric hospitals under the Medicare program are paid under a Psychiatric Prospective Payment System ("Psych PPS"). Medicare payments to psychiatric hospitals are based on a prospective per diem rate with adjustments to account for certain facility and patient characteristics. The Psych PPS also contains provisions for outlier payments and an adjustment to a psychiatric hospital's base payment if it maintains a full-service emergency department.

In July, 2015, CMS published it Psych PPS final rule for the federal fiscal year 2016. Under this final rule, payments to psychiatric hospitals and units are estimated to increase by 1.7% compared to federal fiscal year 2015. This amount includes the effect of the 2.4% market basket update less a 0.2% adjustment as required by the Affordable Care Act and a 0.5% productivity adjustment. The final rule also updates the Inpatient Psychiatric Quality Reporting Program, which requires psychiatric facilities to report on quality measures or incur a reduction in their annual payment update.

On July 31, 2014, CMS published it Psych PPS final rule for the federal fiscal year 2015. Under this final rule, payments to psychiatric hospitals and units are estimated to increase by 2.1% compared to federal fiscal year 2014. This amount includes the effect of the 2.9% market basket update adjusted by the Affordable Care Act required 0.3% reduction and the -0.5% productivity adjustment. The final rule also updates the Inpatient Psychiatric Quality Reporting Program, which requires psychiatric facilities to report on quality measures or incur a reduction in their annual payment update.

In October, 2015, CMS published its OPPS final rule for 2016. The hospital market basket increase is 2.4%. The Medicare statute requires a productivity adjustment reduction of 0.5% and 0.2% reduction to the 2016 OPPS market basket. Additionally, CMS also proposes a reduction of 2.0%, which the CMS claims is necessary to eliminate $1 billion in excess laboratory payments that CMS packaged into OPPS payment rates in 2014 resulting in a 2016 OPPS market basket update at -0.3%. When other statutorily required adjustments and hospital patient service mix are considered, we estimate that our overall Medicare OPPS update for 2016 will aggregate to a net decrease of -0.2% which includes a 7.0% increase to behavioral health division partial hospitalization rates. When the behavioral health division's partial hospitalization rate impact is excluded, we estimate that our Medicare 2016 OPPS payments will result in -1.6% decrease in payment levels for our acute care division, as compared to 2015.

In October, 2014, CMS published its OPPS final rule for 2015. The hospital market basket increase is 2.9%. The Medicare statute requires a productivity adjustment reduction of 0.5% and 0.2% reduction to the 2015 OPPS market basket resulting in a 2015 OPPS market basket update at 2.2%. In the final rule, CMS will reduce the 2015 Medicare rates for both hospital-based and community mental health center partial hospitalization programs. When other statutorily required adjustments, hospital patient service mix and the aforementioned partial hospitalization rates are considered, we estimate that our overall Medicare OPPS for 2015 will aggregate to a net increase of 0.2%. Excluding the behavioral health division partial hospitalization rate impact, our Medicare OPPS payment increase for 2015 is estimated to be 1.5%.

Medicaid: Medicaid is a joint federal-state funded health care benefit program that is administered by the states to provide benefits to qualifying individuals who are unable to afford care. Most state Medicaid payments are made under a PPS-like system, or under programs that negotiate payment levels with individual hospitals. Amounts received under the Medicaid program are generally significantly less than a hospital's customary charges for services provided. In addition to revenues received pursuant to the Medicare program, we receive a large portion of our revenues either directly from Medicaid programs or from managed care companies

managing Medicaid. All of our acute care hospitals and most of our behavioral health centers are certified as providers of Medicaid services by the appropriate governmental authorities.

We receive Medicaid revenues in excess of $90 million annually from each of Texas, Washington, D.C., California, Nevada, Illinois, Pennsylvania, Massachusetts and Virginia, making us particularly sensitive to reductions in Medicaid and other state based revenue programs as well as regulatory, economic, environmental and competitive changes in those states.

The Affordable Care Act substantially increases the federally and state-funded Medicaid insurance program, and authorizes states to establish federally subsidized non-Medicaid health plans for low-income residents not eligible for Medicaid starting in 2014. However, the Supreme Court has struck down portions of the Affordable Care Act requiring states to expand their Medicaid programs in exchange for increased federal funding. Accordingly, there can be no assurance that states in which we operate will expand Medicaid coverage to individuals at 133% of the federal poverty level. Facilities in states not opting to expand Medicaid coverage under the Affordable Care Act may be additionally penalized by corresponding reductions to Medicaid disproportionate share hospital payments, as discussed below. We can provide no assurance that further reductions to Medicaid revenues, particularly in the above-mentioned states, will not have a material adverse effect on our future results of operations.

Texas and South Carolina Medicaid Disproportionate Share Hospital Payments:

Hospitals that have an unusually large number of low-income patients (i.e., those with a Medicaid utilization rate of at least one standard deviation above the mean Medicaid utilization, or having a low income patient utilization rate exceeding 25%) are eligible to receive a DSH adjustment. Congress established a national limit on DSH adjustments. Although this legislation and the resulting state broad-based provider taxes have affected the payments we receive under the Medicaid program, to date the net impact has not been materially adverse.

Upon meeting certain conditions and serving a disproportionately high share of Texas' and South Carolina's low income patients, five of our facilities located in Texas and one facility located in South Carolina received additional reimbursement from each state's DSH fund. The South Carolina and Texas DSH programs were renewed for each state's 2016 DSH fiscal year (covering the period of October 1, 2015 through September 30, 2016). During the second quarter of 2015, the Texas Health and Human Services Commission ("THHSC") finalized DSH payments for federal fiscal year 2014 which resulted in a $6 million annualized reduction in our Texas Medicaid DSH payments retroactive to October, 2013. In connection with these DSH programs, included in our financial results was an aggregate of $7 million and $13 million during the three-month periods ended March 31, 2016 and 2015, respectively. We expect reimbursements to our hospitals, pursuant to the 2016 fiscal year programs for Texas and South Carolina, to be at amounts similar to each state's 2015 fiscal year amounts.

The Affordable Care Act and subsequent federal legislation provides for a significant reduction in Medicaid disproportionate share payments beginning in federal fiscal year 2018 (see below in *Sources of Revenues and Health Care Reform-Medicaid Revisions* for additional disclosure). The U.S. Department of Health and Human Services is to determine the amount of Medicaid DSH payment cuts imposed on each state based on a defined methodology. As Medicaid DSH payments to states will be cut, consequently, payments to Medicaid-participating providers, including our hospitals in Texas and South Carolina, will likely be reduced in the coming years. We are unable to estimate the impact of this federally required reduction at this time.

Various State Medicaid Supplemental Payment Programs:

We incur health-care related taxes ("Provider Taxes") imposed by states in the form of a licensing fee, assessment or other mandatory payment which are related to: (i) healthcare items or services; (ii) the provision of, or the authority to provide, the health care items or services, or; (iii) the payment for the health care items or services. Such Provider Taxes are subject to various federal regulations that limit the scope and amount of the taxes that can be levied by states in order to secure federal matching funds as part of their respective state Medicaid programs. As outlined below, we derive a related Medicaid reimbursement benefit from assessed Provider Taxes in the form of Medicaid claims based payment increases and/or lump sum Medicaid supplemental payments.

Under the various state Medicaid supplemental payment programs including the impact of the below-mentioned Uncompensated Care and Upper Payment Limit programs, the Texas Delivery System Reform Incentive program and the Nevada state plan amendment, we earned revenues (before Provider Taxes) of approximately $78 million and $68 million during the three-month periods ended March 31, 2016 and 2015, respectively. These revenues were offset by Provider Taxes of $36 million and $28 million during the three-month periods ended March 31, 2016 and 2015, respectively, which are recorded in other operating expenses on the Condensed Consolidated Statements of Income as included herein. We estimate that our aggregate net revenues/benefit from the various state Medicaid supplemental payment programs (including Provider Tax programs) will approximate $170 million (net of Provider Taxes of $152 million) during 2016. The aggregate net benefit is earned from multiple states and therefore no particular state's portion is individually material to our consolidated financial statements. However, Provider Taxes are governed by both federal and state laws and are subject to future legislative changes that, if reduced from current rates in several states, could have a material adverse impact on our consolidated future results of operations.

Texas Uncompensated Care/Upper Payment Limit Payments:

Certain of our acute care hospitals located in various counties of Texas (Hidalgo, Maverick, Potter and Webb) participate in Medicaid supplemental payment Section 1115 Waiver indigent care programs. Section 1115 Waiver Uncompensated Care ("UC") payments replace the former Upper Payment Limit ("UPL") payments. These hospitals also have affiliation agreements with third-party hospitals to provide free hospital and physician care to qualifying indigent residents of these counties. Our hospitals receive both supplemental payments from the Medicaid program and indigent care payments from third-party, affiliated hospitals. The supplemental payments are contingent on the county or hospital district making an Inter-Governmental Transfer ("IGT") to the state Medicaid program while the indigent care payment is contingent on a transfer of funds from the applicable affiliated hospitals. However, the county or hospital district is prohibited from entering into an agreement to condition any IGT on the amount of any private hospital's indigent care obligation.

We recorded net revenues/benefit from UC and affiliated hospital indigent care revenues of $15 million during each of the three-month periods ended March 31, 2016 and 2015, respectively, net of Provider Taxes of $1 million and $3 million during the first quarters of 2016 and 2015, respectively. If the applicable hospital district or county makes IGTs consistent with 2015 levels, we believe we would be entitled to aggregate net revenues/benefit earned pursuant to these programs of approximately $55 million (net of Provider Taxes of $10 million) during 2016.

On September 30, 2014, CMS notified the Texas Health and Human Services Commission that it was deferring the federal matching funds (approximately $75 million) on Texas Medicaid UC payments made to providers in certain counties. A deferral results in CMS withholding funds from the state representing the federal portion of Medicaid payments the state has previously made to providers. A deferral goes into effect when CMS questions the basis for all or part of the amount of Medicaid payments made to certain providers, and remains in place subject to CMS's final determination. Our Texas hospitals are not located in the geographic areas impacted by this deferral. On January 7, 2015, CMS removed the aforementioned deferral but indicated they will continue their review and assessment of the underlying UC financing arrangements as to ensure their compliance with the applicable federal regulations and eligibility for federal matching dollars. In May, 2015, THHSC was informed by CMS that current private-hospital funding arrangements can continue for waiver-payment dates through August, 2017, without risk of disallowance of federal matching funds on the same grounds questioned in last year's deferral.

For state fiscal year 2016, Texas Medicaid will continue to operate under a CMS-approved Section 1115 five-year Medicaid waiver demonstration program. During the first five years of this program that started in state fiscal year 2012, the THHSC transitioned away from UPL payments to new waiver incentive payment programs, UC payments and Delivery System Reform Incentive Payments ("DSRIP"). During the first year of transition, which commenced on October 1, 2011, THHSC made payments to Medicaid UPL recipient providers that received payments during the state's prior fiscal year. During demonstration years two through five (October 1, 2012 through September 30, 2016), THHSC has, and will continue to, make incentive payments under the program after certain qualifying criteria are met by hospitals. Supplemental payments are also subject to aggregate statewide caps based on CMS approved Medicaid waiver amounts. In May, 2016, CMS approved a 15-month extension of the 1115 Waiver until December 31, 2017 at terms relatively consistent with current Waiver terms and conditions. The UC and DSRIP pools will continue to be funded at their current levels of $3.1 billion annually on a pro rata basis.

Texas Delivery System Reform Incentive Payments:

In addition, the Texas Medicaid Section 1115 Waiver includes a DSRIP pool to incentivize hospitals and other providers to transform their service delivery practices to improve quality, health status, patient experience, coordination, and cost-effectiveness. DSRIP pool payments are incentive payments to hospitals and other providers that develop programs or strategies to enhance access to health care, increase the quality of care, the cost-effectiveness of care provided and the health of the patients and families served. In May, 2014, CMS formally approved specific DSRIP projects for certain of our hospitals for demonstration years 3 to 5 (our facilities did not materially participate in the DSRIP pool during demonstration years 1 or 2). DSRIP payments are contingent on the hospital meeting certain pre-determined milestones, metrics and clinical outcomes. Additionally, DSRIP payments are contingent on a governmental entity providing an IGT for the non-federal share component of the DSRIP payment. THHSC generally approves DSRIP reported metrics, milestones and clinical outcomes on a semi-annual basis in June and December.

There were essentially no DSRIP revenues/benefit recorded during the three-month periods ended March 31, 2016 and 2015. Although we can provide no assurance that we will ultimately qualify for additional DSRIP revenues, subject to CMS's approval and other conditions as outlined above, we estimate that we may be entitled to additional DSRIP revenues/benefit of approximately $25 million (net of Provider Taxes of $16 million) during 2016.

Nevada SPA:

In Nevada, CMS approved a state plan amendment ("SPA") in August, 2014 that implemented a hospital supplemental payment program retroactive to January 1, 2014 and effective to June 30, 2015. In September, 2015, CMS also approved the successor supplemental payment program retroactive to July 1, 2015 to June 30, 2016. Included in our financial results for the three-month

periods ended March 31, 2016 and 2015, was approximately $4 million and $2 million, respectively, recorded in connection with this program. We estimate that our reimbursements pursuant to this program will approximate $10 million during 2016.

In April, 2016, CMS published its final Medicaid Managed Care Rule which explicitly permits but phases out the use of pass-through payments (including supplemental payments) by Medicaid Managed Care Organizations (MCO's) to hospitals over ten years but allows for a transition of the pass-through payments into value-based payment structures, delivery system reform initiatives or payments tied to services under a MCO contract. The Company is unable to determine the financial impact of this aspect of the final rule. However, we can provide no assurance that the final rule will not have a material adverse effect on our future results of operations.

As outlined above, we receive substantial reimbursement from multiple states in connection with various supplemental Medicaid payment programs. Failure to renew these programs beyond their scheduled termination dates, failure of the public hospitals to provide the necessary IGTs for the states' share of the DSH programs, failure of our hospitals that currently receive supplemental Medicaid revenues to qualify for future funds under these programs, or reductions in reimbursements, could have a material adverse effect on our future results of operations.

HITECH Act: In July 2010, the Department of Health and Human Services ("HHS") published final regulations implementing the health information technology ("HIT") provisions of the American Recovery and Reinvestment Act (referred to as the "HITECH Act"). The final regulation defines the "meaningful use" of Electronic Health Records ("EHR") and establishes the requirements for the Medicare and Medicaid EHR payment incentive programs. The final rule established an initial set of standards and certification criteria. The implementation period for these new Medicare and Medicaid incentive payments started in federal fiscal year 2011 and can end as late as 2016 for Medicare and 2021 for the state Medicaid programs. State Medicaid program participation in this federally funded incentive program is voluntary but all of the states in which our eligible hospitals operate have chosen to participate. Our acute care hospitals may qualify for these EHR incentive payments upon implementation of the EHR application assuming they meet the "meaningful use" criteria. The government's ultimate goal is to promote more effective (quality) and efficient healthcare delivery through the use of technology to reduce the total cost of healthcare for all Americans and utilizing the cost savings to expand access to the healthcare system.

Pursuant to HITECH Act regulations, hospitals that do not qualify as a meaningful user of EHR by 2015 are subject to a reduced market basket update to the IPPS standardized amount in 2015 and each subsequent fiscal year. We believe that all of our acute care hospitals have met the applicable meaningful use criteria and therefore are not subject to a reduced market basked update to the IPPS standardized amount in federal fiscal year 2015. However, under the HITECH Act, hospitals must continue to meet the applicable meaningful use criteria in each fiscal year or they will be subject to a market basket update reduction in a subsequent fiscal year. Failure of our acute care hospitals to continue to meet the applicable meaningful use criteria would have an adverse effect on our future net revenues and results of operations.

Our consolidated results of operations during each of the three-month periods ended March 31, 2016 and 2015 include an unfavorable pre-tax impact of approximately $5 million related primarily to the depreciation and amortization expense incurred in connection with the implementation of electronic health records applications ("EHR") at our acute care hospitals.

Federal regulations require that Medicare EHR incentive payments be computed based on the Medicare cost report that begins in the federal fiscal period in which a hospital meets the applicable "meaningful use" requirements. Since the annual Medicare cost report periods for each of our acute care hospitals ends on December 31st , we will recognize Medicare EHR incentive income for each hospital during the fourth quarter of the year in which the facility meets the "meaningful use" criteria and during the fourth quarter of each applicable subsequent year.

Managed Care: A significant portion of our net patient revenues are generated from managed care companies, which include health maintenance organizations, preferred provider organizations and managed Medicare (referred to as Medicare Part C or Medicare Advantage) and Medicaid programs. In general, we expect the percentage of our business from managed care programs to continue to grow. The consequent growth in managed care networks and the resulting impact of these networks on the operating results of our facilities vary among the markets in which we operate. Typically, we receive lower payments per patient from managed care payors than we do from traditional indemnity insurers, however, during the past few years we have secured price increases from many of our commercial payors including managed care companies.

Commercial Insurance: Our hospitals also provide services to individuals covered by private health care insurance. Private insurance carriers typically make direct payments to hospitals or, in some cases, reimburse their policy holders, based upon the particular hospital's established charges and the particular coverage provided in the insurance policy. Private insurance reimbursement varies among payors and states and is generally based on contracts negotiated between the hospital and the payor.

Commercial insurers are continuing efforts to limit the payments for hospital services by adopting discounted payment mechanisms, including predetermined payment or DRG-based payment systems, for more inpatient and outpatient services. To the extent that such efforts are successful and reduce the insurers' reimbursement to hospitals and the costs of providing services to their beneficiaries, such reduced levels of reimbursement may have a negative impact on the operating results of our hospitals.

Other Sources: Our hospitals provide services to individuals that do not have any form of health care coverage. Such patients are evaluated, at the time of service or shortly thereafter, for their ability to pay based upon federal and state poverty guidelines, qualifications for Medicaid or other state assistance programs, as well as our local hospitals' indigent and charity care policy. Patients without health care coverage who do not qualify for Medicaid or indigent care write-offs are offered substantial discounts in an effort to settle their outstanding account balances.

Sources of Revenues and Health Care Reform: Given increasing budget deficits, the federal government and many states are currently considering additional ways to limit increases in levels of Medicare and Medicaid funding, which could also adversely affect future payments received by our hospitals. In addition, the uncertainty and fiscal pressures placed upon the federal government as a result of, among other things, economic recovery stimulus packages, responses to natural disasters, and the federal budget deficit in general may affect the availability of federal funds to provide additional relief in the future. We are unable to predict the effect of future policy changes on our operations.

In March, 2010, the Health Care and Education Reconciliation Act of 2010 (H.R. 4872, P.L. 111-152), (the "Reconciliation Act") and the Patient Protection and Affordable Care Act (P.L. 111-148), (the "Affordable Care Act"), were enacted into law and created significant changes to health insurance coverage for U.S. citizens as well as material revisions to the federal Medicare and state Medicaid programs. Medicare, Medicaid and other health care industry changes which are scheduled to be implemented at various times during this decade are noted below.

Implemented Medicare Reductions and Reforms:

- The Reconciliation Act reduced the market basket update for inpatient and outpatient hospitals and inpatient behavioral health facilities by 0.25% in each of 2010 and 2011, by 0.10% in each of 2012 and 2013, 0.30% in 2014 and 0.20% in 2015.
- The Affordable Care Act implemented certain reforms to Medicare Advantage payments, effective in 2011.
- A Medicare shared savings program, effective in 2012.
- A hospital readmissions reduction program, effective in 2012.
- A value-based purchasing program for hospitals, effective in 2012.
- A national pilot program on payment bundling, effective in 2013.
- Reduction to Medicare disproportionate share hospital ("DSH") payments, effective in 2014, as discussed above.

Medicaid Revisions:

- Expanded Medicaid eligibility and related special federal payments, effective in 2014.
- The Affordable Care Act (as amended by subsequent federal legislation) requires annual aggregate reductions in federal DSH funding from federal fiscal year ("FFY") 2018 through FFY 2025. The aggregate annual reduction amounts are:

  $2.0 billion for FFY 2018

  $3.0 billion for FFY 2019

  $4.0 billion for FFY 2020

  $5.0 billion for FFY 2021

  $6.0 billion for FFY 2022

  $7.0 billion for FFY 2023

  $8.0 billion for FFY 2024

  $8.0 billion for FFY 2025

Health Insurance Revisions:

- Large employer insurance reforms, effective in 2015.
- Individual insurance mandate and related federal subsidies, effective in 2014.
- Federally mandated insurance coverage reforms, effective in 2010 and forward.

The Affordable Care Act seeks to increase competition among private health insurers by providing for transparent federal and state insurance exchanges. The Affordable Care Act also prohibits private insurers from adjusting insurance premiums based on health status, gender, or other specified factors. We cannot provide assurance that these provisions will not adversely affect the ability of private insurers to pay for services provided to insured patients, or that these changes will not have a negative material impact on our results of operations going forward.

Value-Based Purchasing:

There is a trend in the healthcare industry toward value-based purchasing of healthcare services. These value-based purchasing programs include both public reporting of quality data and preventable adverse events tied to the quality and efficiency of care provided by facilities. Governmental programs including Medicare and Medicaid currently require hospitals to report certain quality data to receive full reimbursement updates. In addition, Medicare does not reimburse for care related to certain preventable adverse events. Many large commercial payers currently require hospitals to report quality data, and several commercial payers do not reimburse hospitals for certain preventable adverse events.

The Affordable Care Act contains a number of provisions intended to promote value-based purchasing. The Affordable Care Act prohibits the use of federal funds under the Medicaid program to reimburse providers for medical assistance provided to treat hospital acquired conditions ("HAC"). Beginning in FFY 2015, hospitals that fall into the top 25% of national risk-adjusted HAC rates for all hospitals in the previous year will receive a 1% reduction in their total Medicare payments. Additionally, hospitals with excessive readmissions for conditions designated by HHS will receive reduced payments for all inpatient discharges, not just discharges relating to the conditions subject to the excessive readmission standard.

The Affordable Care Act also required HHS to implement a value-based purchasing program for inpatient hospital services which became effective on October 1, 2012. The Affordable Care Act requires HHS to reduce inpatient hospital payments for all discharges by a percentage beginning at 1% in FFY 2013 and increasing by 0.25% each fiscal year up to 2% in FFY 2017 and subsequent years. HHS will pool the amount collected from these reductions to fund payments to reward hospitals that meet or exceed certain quality performance standards established by HHS. HHS will determine the amount each hospital that meets or exceeds the quality performance standards will receive from the pool of dollars created by these payment reductions. In its fiscal year 2016 IPPS final rule, CMS will fund the value-based purchasing program by reducing base operating DRG payment amounts to participating hospitals by 1.75%. For FFY 2017, this reduction will increase to 2%.

Readmission Reduction Program:

In the Affordable Care Act, Congress also mandated implementation of the hospital readmission reduction program ("HRRP"). The HRRP currently assesses penalties on hospitals having excess readmission rates for heart failure, myocardial infarction, pneumonia, acute exacerbation of chronic obstructive pulmonary disease (COPD) and elective total hip arthroplasty (THA) and total knee arthroplasty (TKA), excluding planned readmissions, when compared to expected rates. In the fiscal year 2015 IPPS final rule, CMS added readmissions for coronary artery bypass graft (CABG) surgical procedures beginning in fiscal year 2017. The impact of HRRP for federal fiscal year 2016 will not have a material adverse effect on our results of operations.

Accountable Care Organizations:

The Affordable Care Act requires HHS to establish a Medicare Shared Savings Program that promotes accountability and coordination of care through the creation of accountable care organizations ("ACOs"). The ACO program allows providers (including hospitals), physicians and other designated professionals and suppliers to voluntarily work together to invest in infrastructure and redesign delivery processes to achieve high quality and efficient delivery of services. The program is intended to produce savings as a result of improved quality and operational efficiency. ACOs that achieve quality performance standards established by HHS will be eligible to share in a portion of the amounts saved by the Medicare program.

In addition to statutory and regulatory changes to the Medicare and each of the state Medicaid programs, our operations and reimbursement may be affected by administrative rulings, new or novel interpretations and determinations of existing laws and regulations, post-payment audits, requirements for utilization review and new governmental funding restrictions, all of which may materially increase or decrease program payments as well as affect the cost of providing services and the timing of payments to our facilities. The final determination of amounts we receive under the Medicare and Medicaid programs often takes many years, because

of audits by the program representatives, providers' rights of appeal and the application of numerous technical reimbursement provisions. We believe that we have made adequate provisions for such potential adjustments. Nevertheless, until final adjustments are made, certain issues remain unresolved and previously determined allowances could become either inadequate or more than ultimately required.

Finally, we expect continued third-party efforts to aggressively manage reimbursement levels and cost controls. Reductions in reimbursement amounts received from third-party payors could have a material adverse effect on our financial position and our results of operations.

Other Operating Results

Interest Expense:

As reflected on the schedule below, interest expense was $30 million during each of the three-month periods ended March 31, 2016 and 2015 (amounts in thousands):

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Revolving credit & demand notes	$ 1,595	$ 798
$400 million, 7.125% Senior Notes due 2016	7,124	7,124
$300 million, 3.75% Senior Notes due 2019	2,812	2,812
$300 million, 4.75% Senior Notes due 2022	3,563	3,563
Term loan facility A	8,347	7,528
Accounts receivable securitization program (a.)	1,203	781
Subtotal-revolving credit, demand notes, Senior Notes, term loan facilities and accounts receivable securitization program	24,644	22,606
Interest rate swap expense, net	2,269	4,148
Amortization of financing fees	1,780	1,763
Other combined interest expense	1,298	1,525
Capitalized interest on major projects	(361)	0
Interest income	(30)	(5)
Interest expense, net	$ 29,600	$ 30,037

(a.) In December, 2015, we amended our accounts receivable securitization program, which was scheduled to expire in October, 2016, to extend the term through December 21, 2018 and increase the borrowing limit to $400 million from $360 million.

Interest expense was relatively unchanged during the three-month period ended March 31, 2016, as compared to the comparable quarter of 2015. The aggregate interest expense on our revolving credit, demand notes, senior notes, term loan facility and accounts receivable securitization program increased by $2 million during the three-month period ended March 31, 2016, as compared to the comparable quarter of 2015 primarily due to an increase in our average outstanding borrowings, partially offset by a decrease in our aggregate average cost of borrowings pursuant to these facilities. Additionally, our interest rate swap expense decreased by $2 million during the three months ended March 31, 2016, as compared to the three months ended March 31, 2015, resulting primarily from the May, 2015, maturity of our previously outstanding interest rate swaps.

Provision for Income Taxes and Effective Tax Rates:

The effective tax rates, as calculated by dividing the provision for income taxes by income before income taxes, were as follows for the three-month periods ended March 31, 2016 and 2015 (dollar amounts in thousands):

	Three months ended	
	March 31, 2016	March 31, 2015
Provision for income taxes	$ 111,005	$ 102,694
Income before income taxes	326,724	297,017
Effective tax rate	34.0%	34.6%

Outside owners hold various noncontrolling, minority ownership interests in seven of our acute care facilities (excluding a new acute care hospital located in Henderson, Nevada which is currently under construction) and one behavioral health care facility. Each of

Attachment C. Contribution to the Orderly Development of Health Care. 7-d

STATE OF TENNESSEE
DEPARTMENT OF MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES
West Tennessee Regional Office of Licensure
951 Court Avenue
MEMPHIS, TENNESSEE 38103

BILL HASLAM
GOVERNOR

E. DOUGLAS VARNEY
COMMISSIONER

November 30, 2015

Mr. Jeremy Pitzer
CEO
Keystone Memphis, LLC
7900 Lowrance Road
Memphis, TN 38125

Dear Mr. Pitzer:

Attached is a Full License issued to Keystone Memphis, LLC to operate a facility/service at the address listed herein. This license is effective December 01, 2015 and will expire on November 30, 2016.

This license is being issued in accordance with regulation 0940-5-2-.11 which provides that facilities/services accredited by Joint Commission on Accreditation of Health Care Organizations (JCAHO) may be deemed to be in compliance with the Department of Mental Health licensure program standards. Compliance with applicable life safety standards has been demonstrated. The facility/service remains subject to at least one unannounced inspection annually.

Should a facility/service for some reason fail to maintain its accredited or certified status, you are required to notify this office. At that point, we will proceed to make a licensure determination under other licensure regulations.

Compass Intervention Center at: 7900 Lowrance Road, Memphis, TN 38125 **Site ID: 312**

Attached: L000000017343 - Alcohol & Drug Residential Treatment for Children & Youth, Capacity: 30; Mental Health Outpatient Facility; Mental Health Partial Hospitalization Facility; Mental Health Residential Treatment for Children & Youth, Capacity: 78; MH Intensive Day Treatment for Children & Adolescents

Also enclosed is a status report for your agency's most recent inspection.

Sincerely,

Cynthia Tyler, Esq.
Director of Office of Licensure

161

Phone: (901)543-7442 Fax: (844)844-5538

STATE OF TENNESSEE
DEPARTMENT OF MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES
West Tennessee Regional Office of Licensure
951 Court Avenue
MEMPHIS, TENNESSEE 38103

BILL HASLAM
GOVERNOR

E. DOUGLAS VARNEY
COMMISSIONER

COMPLIANCE EVENT STATUS REPORT

LICENSEE:	Licensee ID: 282	FACILITY:	Site ID: 312
Keystone Memphis, LLC 7900 Lowrance Road Memphis, TN 38125		Compass Intervention Center 7900 Lowrance Road Memphis, TN 38125	

NOTICE TO LICENSEE: A review has been completed of your recently submitted plan of compliance. The approval status given your plan is indicated below. Read the approval status given below carefully. This approval status form and your plan of compliance should become part of your records.

DATE OF NOTICE / REPORT: 11/30/15
DATE OF ASSOCIATED NOTICE OF NON-COMPLIANCE: 10/9/15
COMPLIANCE EVENT & DATE: Annual Inspection 10/5/15
Site ID:312 Event ID:6,602

I. REVIEW OF PLAN OF NON-COMPLIANCE COMPLETED BY:

Adrienne Brent, West Tennessee Licensure

II. APPROVAL STATUS OF PLAN OF NON-COMPLIANCE:

POC Approved

Your plan of compliance has been accepted. You are expected to meet the terms of your plan. Re-inspection may be conducted to verify compliance. With re-inspection, you will incur a $50 re-inspection fee.

EVENT SUMMARY

09450-5-02 Licensure Administration and Procedures	1 deficiency
09450-5-04-.02 Life Safety: HealthCare Occupancies	3 deficiencies
09450-5-04-.09 Life Safety: Mobile Non-ambulatory	0 deficiencies
09450-5-05-.02 Adequacy of Facility Environment and Ancillary Services (ALL FACILITIES)	12 deficiencies
09450-5-05-.03 Adequacy of Facility Environment & Ancillary Services (RESIDENTIAL)	4 deficiencies
09450-5-05-.04 Adequacy of Facility Environment & Ancillary Services (NON-RESIDENTIAL)	0 deficiencies
09450-5-05-.05 Adequacy of Facility Environment & Ancillary Services (FOOD SERVICE)	0 deficiencies
09450-5-05-.06 Adequacy of Facility Environment & Ancillary Services (TRANSPORTATION)	0 deficiencies
09450-5-05-.07 Adequacy of Facility Environment & Ancillary Services (CHILDREN)	0 deficiencies
09450-5-05-.09 Adequacy of Facility Environment & Ancillary Services (VISION LOSS)	0 deficiencies
09450-5-05-.10 Residential Facilities Serving Hearing Impaired (HEARING LOSS)	0 deficiencies
09450-5-05-.11 Non-Residential Facilities Serving Hearing Impaired (HEARING LOSS)	0 deficiencies
09450-5-06 Program Requirements for All Services and Facilities (DEEMED)	0 deficiencies
09450-5-14 Mental Health Outpatient Facilities (DEEMED)	0 deficiencies
09450-5-30 Mental Health Intensive Day Treatment Program Children & Adolescents Facilitie	0 deficiencies

09450-5-33 Mental Health Partial Hospitalization Programs (DEEMED)	0 deficiencies
09450-5-37 Mental Health Residential Treatment Facility For Children and Youth (DEEMED)	0 deficiencies
09450-5-46 Alcohol and Drug Residential Treatment Facilities for Children and Youth (DEEM	0 deficiencies

Attachment C. Contribution to the Orderly Development of Health Care. 7-d

Compass Intervention Center
Plan of Compliance
Annual Inspection October 5, 2015

0940-5-4-.02 LICENSURE ADMINISTRATION AND PROCEDURES

0940-5-4.-02 16 POSTING OF THE LICENSE. The license certificate shall be posted for public viewing in a conspicuous place at the facility or service.

1. At the time of inspection the license certificate was located behind the front desk and not easily visible for public viewing at the facility..

Licensee's Planned Date of Compliance: 10/19/2015
Licensee's Plan of Compliance: The license was removed from behind the front desk and placed in the lobby for public viewing. (See picture attached)

0940-5-4 Life Safety Licensure Rules

0940-5-4-.02 HEALTH CARE OCCUPANCIES

0940-5-4-.02(2) Criteria. For the purpose of life safety facilities required to meet Health Care Occupancies must comply with the applicable standards of the Life Safety Code of the National Fire Protection Association, 1985 Edition, Health Care Occupancies, Chapter 12 (n32) or Chapter 13 (existing) or equivalent standards hereafter adopted by the Office of the State Fire Marshal.

2. At the time of inspection boxes located in the kitchen bathroom were not adequately stored 18 inches from the sprinklers creating a potential hazard if a fire were to start.

Licensee's Planned Date of Completion: 10-9-15
Licensee's Plan of Compliance:
Items in the kitchen were removed immediately and placed in a different location. The Kitchen Supervisor was instructed on the importance of maintaining items below the red line. Kitchen bathroom will continue to be checked during our monthly Environmental inspections. (See picture attached)

3. At the time of inspection boxes located in the administrative hallway storage closet were not adequately stored 18 inches from the sprinklers creating a potential hazard if a fire were to start.

Licensee's Planned Date of Completion: 10-23-15
Licensee's Plan of Compliance:
At the time of the survey, numerous staff had keys to this area. This closet has been cleaned out and reorganized. The locks have been changed and given to three individuals for continued monitoring. We will continue to monitor this area on a monthly basis during Environmental inspections.
(See picture attached)

0940-5-4-.02(2) Criteria. For the purpose of life safety facilities require to meet Health Care Occupancies must comply with the applicable standards of the Life Safety Code of the National Fire Protection Association, 1985 Edition, Health Care Occupancies. Chapter 12 (new) or Chapter 13 (existing) or equivalent standards hereafter adopted by the Office of the State Fire Marshal.

4. At the time of inspection 1 of the dryers were missing a lint filter which causes a potential fire hazard.
Licensee's Planned Date of Completion: 10-23-15
Licensee's Plan of Compliance
A new dryer lint filter was ordered. The dryer was removed from operation until the lint filter was received. Will monitor during Monthly Environmental Inspections. (See picture attached)

0940-5-5 Adequacy of Facility Environment and Ancillary Services

0940-5-5-.02 GENERAL ENVIRONMENTAL REQUIREMENTS FOR ALL FACILITIES

0940-5-5-02(1) The facility must be maintained in a safe manner and a continuing effort made to eliminate potential hazards.

5. At the time of inspection there was a cable wire and wall covering plate hanging from the ceiling in Dayroom 100 potential causing a hazard.
Licensee's Planned Date of Completion: 10-19-15
Licensee's Plan of Compliance:
100 Dayroom ceiling repaired (See picture attached)

0940-5-5-02(1) The facility must be maintained in a safe manner and a continuing effort made to eliminate potential hazards.

6. In Dayroom 300, the window sill was broken presenting shape edges sticking out causing a potential hazard for the service recipients.
Licensee's Planned Date of Completion: 10-23-15
Licensee's Plan of Compliance: Window sill was repaired (See attached picture)

0940-5-5-02(1) The facility must be maintained in a safe manner and a continuing effort made to eliminate potential hazards.

7. In bedroom 201, the shower curtain was located on the floor in front of the shower presenting a potential trip hazard for the service recipients.
Licensee's Planned Date of Completion: 10-19-15
Licensee's Plan of Compliance: Shower curtain was placed back on the track by Maintenance. (See picture attached)
Housekeeping will complete a daily report showing that this has been checked and will contact maintenance if they need to be replaced. (See attached Housekeeping report)

0940-5-5-02(1) The facility must be maintained in a safe manner and a continuing effort made to eliminate potential hazards.

8. At the time of inspection the in-ground drain pipe located in the outside area, was in disrepair with protruding shape pieces.
Licensee's Planned Date of Completion: 10-13-15
Licensee's Plan of Compliance:
We have received bids on new gutters and are awaiting corporate approval before the gutters will be replaced. In the meantime, we have corrected the deficiencies noted. (See picture attached)

0940-5-5-02(1) The facility must be maintained in a safe manner and a continuing effort made to eliminate potential hazards.

9. At the time of inspection the gutter located outside the fire exit on the classroom hallway, was dangling from the roof potentially causing a hazard

Licensee's Planned Date of Completion: 10-13-15
Licensee's Plan of Compliance:
We have received bids on new gutters and are awaiting corporate approval before the gutters will be replaced. In the meantime, we have corrected the deficiencies noted. (See picture attached)

0940-5-5-02(1) The facility must be maintained in a safe manner and a continuing effort made to eliminate potential hazards.

10. There was a hole on the wall located close to the top of the door outside of classroom 4 that needs repair.

Licensee's Planned Date of Completion: 10-13-15
Licensee's Plan of Compliance: Hole fixed 10-20-15 (See picture attached)

0940-5-5-.02(2) The facility must be maintained in a sanitary and clean condition, free from all accumulation of dirt and rubbish, well-ventilated, and free from foul, stale or musty odors.

11. At the time of inspections there was paper and trash in the outside area where the service recipients participate in leisure activities.

Licensee's Planned Date of Completion: 10-13-15
Licensee's Plan of Compliance: This area was cleaned immediately following Licensure visit. Housekeeping to continue to clean them daily. Community Counselors will make sure these rooms are clean prior to transitioning their groups. (See picture attached)
Housekeeping will complete a daily report showing that this has been checked and will contact maintenance if they need to be replaced. (See attached Housekeeping report)

0940-5-5-.02(2) The facility must be maintained in a sanitary and clean condition, free from all accumulation of dirt and rubbish, well-ventilated, and free from foul, stale or musty odors. (See picture attached)

12. At the time of inspections was an accumulation of dirt, spider webs and bugs located in the 300 dayroom window.

Licensee's Planned Date of Completion: 10-13-15
Licensee's Plan of Compliance:
Housekeeping cleaned this area immediately and will put in on their rotation to be done every other week. Housekeeping will complete a daily report showing that this has been checked and will contact maintenance if they need to be replaced. (See attached Housekeeping report)
Monthly Environmental inspections will be done to monitor. (See picture attached)

0940-5-5 Adequacy of Facility Environment and Ancillary Services

0940-5-5-.02(4) Housekeeping practices and standards must be maintained which will ensure the eradication of flies, roaches and other vermin.

13. At the time of inspections was an accumulation of spider webs, bugs and dirt daubers' nest located outside the classroom hallway fire exit.

Licensee's Planned Date of Completion: 10-13-15
Licensee's Plan of Compliance:
Housekeeping cleaned this area immediately. Housekeeping is putting these outside areas on their rotation to be done every other week. Monthly environmental inspections will be done to monitor (See picture attached)
Housekeeping will complete a daily report showing that this has been checked and will contact maintenance if they need to be replaced. (See attached Housekeeping report)

0940-5-5-.02(4) Housekeeping practices and standards must be maintained which will ensure the eradication of flies, roaches and other vermin.

14. At the time of inspections was an accumulation of spider webs, bugs and dirt daubers' next located outside the therapist hallway fire exit.

Licensee's Planned Date of Completion: 10-13-15
Licensee's Plan of Compliance:
Housekeeping cleaned this area immediately. Housekeeping is putting these outside areas on their rotation to be done every other week. Monthly environmental inspections will be done to monitor (See picture attached)
Housekeeping will complete a daily report showing that this has been checked and will contact maintenance if they need to be replaced. (See attached Housekeeping report)

0940-5-5.02(4) Housekeeping practices and standards must be maintained which will ensure the eradication of flies, roaches, and other vermin.

15. There was food, cups and trash located on the floor between the window and chair in the 400 Dayroom.

Licensee's Planned Date of Completion: 10-5-15
Licensee's Plan of Completion:
This area was cleaned immediately following the licensure visit. The Community Counselors will make sure these areas are cleaned prior to transitioning their groups from these areas. Monthly environmental inspections will be done. (See picture attached)
Housekeeping will complete a daily report showing that this has been checked and will contact maintenance if they need to be replaced. (See attached Housekeeping report)

0940-5-5-02(6) All interior and exterior stairways, halls porches, walkways and all other means of egress and areas of exit discharge must be maintained free of any obstacles, including furniture or other stored items.

16. At the time of inspection there were broken pieces of hard brown plastic located outside the classroom in the hallway causing a potential trip hazard and potential obstacles during means of egress.

Licensee's Planned Date of Completion: 10-5-15
Licensee's Plan of Completion: Plastic removed (See picture attached)
Housekeeping will complete a daily report showing that this has been checked and will contact maintenance if they need to be replaced. (See attached Housekeeping report)

0940-5-5 Adequacy of Facility Environment and Ancillary Services

0940-5-5-.03 ENVIRONMENTAL REQUIREMENTS FOR RESIDENTIAL FACILITIES

The governing body must ensure that each client is provided with the following:
0940-5-5-.03(1)(b) A mattress and springs, or a mattress foundation, both of which are clean comfortable and in good repair;

17. Mattress located in bedroom 102 was torn and in disrepair
Licensee's Planned Date of Completion: 10-5-15
Licensee's Plan of Completion: Mattress was immediately removed and thrown away. CCs are being trained to ensure that torn mattresses are called into the Maintenance Hotline for removal. Environmental walk inspections
Housekeeping will complete a daily report showing that this has been checked and will contact maintenance if they need to be replaced. (See attached Housekeeping report)

The governing body must ensure that each client is provided with the following:
0940-5-5-.03(1)(C)
Clean linens consisting of both a top and bottom sheet, which are clean, in good repair and are changed as often as needed, but at least weekly.
Housekeeping will complete a daily report showing that this has been checked and will contact maintenance if they need to be replaced. (See attached Housekeeping report)

The governing body must ensure that each client is provided with the following:
0940-5-5-.03(1)(d) Bedding such as blankets, which are clean, in good repair and appropriate to the weather:

19. 1 bed in bedroom 301 was missing a blanket. There was only a flat sheet present.
Licensee's Planned Date of Completion:
Licensee's Plan of Completion: CCs have been receiving training on the required linens in their room. (See attached training agenda) This is monitored on Monthly environmental inspections. (See picture attached)
Housekeeping will complete a daily report showing that this has been checked and will contact maintenance if they need to be replaced. (See

attached Housekeeping report)

Bathrooms must be provided within the facility which are equipped as follows:
0940-5-5-03(4)(f) Adequate and sanitary toilet paper provided at each toilet.

20. The toilet paper in the bathroom located in bedroom 207 was not in the storage dispenser and located on the back of the toilet which prevents it from remaining sanitary.
The toilet paper in the bathroom located in bedroom 203 was not in the storage dispenser and located on the top of the sink which prevents it from remaining sanitary.
Licensee's Planned Date of Completion: 10 -5-15
Licensee's Plan of Completion:
Community Counselors should make sure that toilet paper is placed in the dispenser after hygiene time in the morning. Housekeeping will also ensure that toilet paper is placed in the dispenser to ensure that it remains sanitary. (See picture attached) Housekeeping will complete a daily report showing that this has been checked and will contact maintenance if they need to be replaced. (See attached Housekeeping report)

By submitting this Plan of Correction, Compass Intervention Center does not agree that the facts alleged are true or admit that it violated the rules. Compass Intervention Center submits this Plan of Correction to document the actions it has taken to address the citations."

Signature of Licensee or Authorized Agent _____Date_____

AFFIDAVIT

STATE OF TN

COUNTY OF SHELBY

Jeremy Pitzer, being first duly sworn, says that he/she is the applicant named in this application or his/her/its lawful agent, that this project will be completed in accordance with the application, that the applicant has read the directions to this application, the Rules of the Health Services and Development Agency, and T.C.A. § 68-11-1601, *et seq.*, and that the responses to this application or any other questions deemed appropriate by the Health Services and Development Agency are true and complete.

CEO
SIGNATURE/TITLE

Sworn to and subscribed before me this 13th day of June (Month), 2016 (Year) a Notary Public in and for the County/State of Shelby, TN.

NOTARY PUBLIC

My commission expires 10/5 (Month/Day), 2019 (Year).

TERRI SWEET
STATE OF TENNESSEE NOTARY PUBLIC
SHELBY COUNTY
MY COMMISSION EXPIRES 10-5-2019

Letters of Support

Steve McManus
State Representative
96th Legislative District

Home Office
9406 Riveredge Drive
Cordova, TN 38018
(901) 237-7488

rep.steve.mcmanus@capitol.tn.gov

House of Representatives
State of Tennessee

NASHVILLE

COMMITTEES
Insurance and Banking, Chairman
Insurance and Banking Sub, Member
Consumer and Human Resources, Member
Calendar and Rules, Member

Suite 20 Legislative Plaza
Nashville, TN 37243
Phone: (615) 741-1920
Fax (615) 253-0232

October 1, 2015

Melanie Hill, Executive Director
Tennessee Health Services and Development Agency
502 Deaderick Street
Andrew Jackson Bldg., 9th Floor
Nashville, TN 37243

RE: Compass Intervention Center

Dear Director Hill:

As the State Representative for the 96th District, I want to take this opportunity to express my strong support for Compass Intervention Center's CON application.

Compass Intervention Center is a premier facility providing residential treatment for psychiatric and dual diagnosis disorders for children. They treat children with severe and chronic mental health, behavioral problems, and substance use disorders who are predominantly underserved, low-income, and have the greatest need across domains. Through their work with all children in need, Compass Intervention Center specializes in children's trauma recovery and the treatment of co-occurring mental health and substance abuse disorders. Their entire clinical team is trained in Trauma-Focused Cognitive Behavioral Therapy (TF-CBT), with multiple therapists pursuing or eligible for national certification.

There is a great need in our community and region for additional capacity for child and adolescent mental health services. The vast majority of psychiatric beds in the region are dedicated to treating adult patients, and as a result accessing child and adolescent services is increasingly difficult. The children that Compass serves face an overwhelming amount of barriers to health including higher amounts of violence and trauma exposure, higher numbers of contact with the justice system, economic and educational deficits and a lack of appropriate treatment resources. Their facility and leadership teams are actively

involved in a variety of community service that ranges from non-profit board membership, volunteerism, committee leadership and sponsorship. They are invested in our communities and most especially, the people and agencies that they have the privilege of working with. They strive to help eliminate the stigma of mental health by promoting awareness and offering education to the community.

Again, I offer my full support for Compass in this endeavor. Please do not hesitate to contact me should you have any questions or need more information.

Sincerely,

Steve McManus
State Representative

SM/db

REGINALD TATE
STATE SENATOR
33rd SENATORIAL DISTRICT

VICE CHAIR
SHELBY COUNTY DELEGATON

MEMBER OF COMMITTEES:
VICE CHAIR
EDUCATION
COMMERCE

Senate Chamber
State of Tennessee
NASHVILLE

FINANCE WAYS & MEANS
FISCAL REVIEW
SELECT COMMITTEE ON ETHICS
SELECT OVERSIGHT COMMITTEE ON BUSINESS TAXES
SELECT COMMITTEE ON TENNESSEE EDUCATION LOTTERY CORPORATION
COVER TENNESSEE ADVISORY COMMITTEE

October 16, 2015

Melanie Hill, Executive Director
Tennessee Health Services and Development Agency
502 Deaderick Street
Andrew Jackson Bldg., 9th Floor
Nashville, TN 37243

Re: Compass Intervention Center CON

Dear Ms. Hill:

I am writing to express my support for Compass Intervention Center's Certificate of Need application.

Compass Intervention Center is a residential treatment center for psychiatric and dual diagnosis disorders for children and adolescents. The facility is located in southeast Memphis. They treat children with severe and chronic mental health, behavioral problems, and substance use disorders who are predominantly underserved, low-income, and have the greatest need across domains. Like the children and families they serve, their employees represent a diverse mix of backgrounds and educations and are dedicated to providing care that is outcome driven, culturally competent, and focused on treating the patients and families as a whole.

Compass Intervention Center has partnered with several universities, including the University of Tennessee, the University of Memphis, the University of Mississippi, Harding University and Union University to provide high quality clinical internship experiences to Bachelors and Masters level students pursuing a variety of degrees. Compass not only serves Memphis but the greater Tennessee area through their initiatives and programs.

There is a great need in our community and region for additional capacity for child and adolescent mental health services. The vast majority of psychiatric beds in the region are dedicated to treating adult patients, and as a result accessing child and adolescent services is increasingly difficult. The level of need in our community is high. The children that Compass serves face an overwhelming amount of barriers to health including higher

301 6th Avenue North, 320 War Memorial Building, Nashville, TN 37243
Phone (615) 741-2509 Fax (615) 253-0167 Toll Free 1-800-449-8366 Ext. 12509
sen.reginald.tate@capitol.tn.gov

amounts of violence and trauma exposure, higher numbers of contact with the justice system, economic and educational deficits and a lack of appropriate treatment resources.

Again I offer my full support for Compass in this endeavor. Please do not hesitate to contact me should you have any questions or need more information.

Sincerely,

Senator Reginald Tate

Tennessee Suicide Prevention Network

"Saving Lives in Tennessee"

October 1, 2015

Melanie Hill, Executive Director
Tennessee Health Services and Development Agency
502 Deaderick Street
Andrew Jackson Building, Ninth Floor
Nashville, TN 37243

Re: Compass Intervention Center

Dear Ms. Hill:

The Tennessee Suicide Prevention Network (TSPN) wishes to convey its support for Compass Intervention Center's recent Certificate of Need application.

Established in 2001, TSPN works across the state to eliminate the stigma of suicide and educate communities about the warning signs of suicide, with the ultimate intention of reducing suicide rates in the state of Tennessee. We seek to achieve these objectives through organizing and promoting regular regional activities, providing suicide prevention and crisis intervention training to community organizations, and conducting postvention sessions for schools and organizations after suicides occur.

About 950 people in Tennessee die by suicide each year (including about 100 children and teens), and many more attempt suicide or engage in self-harm. Yet we know most suicides can be prevented through treatment of what is often an underlying mental illness. Most psychiatric beds in the area are dedicated to treating adult patients, which makes finding consistent services for children and adolescents in crisis difficult. Our state needs additional capacity for child and adolescent mental health services, and with your support, Compass can provide exactly that.

TSPN has previously partnered with Compass to raise awareness of the issue of suicide in the Memphis/Shelby County area. Staff members are frequent guests and speakers at our regional meetings, and the agency usually sponsors any TSPN events we stage in the area. We find their staff and leadership to be both competent and compassionate in their efforts to serve youth in crisis. It has a sterling reputation in this regard, having provided internships to several local colleges and universities, maintained the highly regarded and award-winning Compass Academy, and demonstrated considerable progress working with juvenile offenders through its HERO program.

With the completion of its expansion project, Compass will be the only BHO in the area that focuses on childhood and adolescent mental health treatment. These services are desperately needed, and I believe that Compass Intervention Center is up to the task.

You are welcome to contact me if you need additional information. Compass Intervention Center is an invaluable participants in our state's suicide prevention agenda, and we believe your agency's support of Compass will literally save lives.

Sincerely,

Scott Ridgway

Scott Ridgway, MS
Executive Director

174

446 Metroplex Drive, Suite A-224 • Nashville, TN 37211 • Office (615) 297-1077 • Fax (615) 269-5413
National Suicide Prevention Lifeline: 1-800-273-TALK

Memphis
Child Advocacy
Center

December 11, 2015

Melanie Hill, Executive Director
Tennessee Health Services And Development Agency
Andrew Jackson Building 9th Floor
502 Deaderick Street
Nashville, TN 37243

Dear Ms. Hill,

I am writing in support of Compass Intervention Center's plan to upgrade and expand their physical facility and services with the goal of building a comprehensive children's behavioral health system. The vision of this expansion includes adding 24 new inpatient beds and additional outpatient capacity to serve children and adolescents struggling with addiction and mental health issues.

Compass Intervention Center and the Memphis Child Advocacy Center share a common goal: the health and wellness of our community's most vulnerable youth. At the Memphis Child Advocacy Center (CAC), a collaboration of compassionate, specialized professionals work together under a shared protocol to help children following reported child sexual or other severe abuse. The Shelby County Child Protection Investigation Team, headquartered at the Memphis CAC, includes 15 agencies involved in the investigation, prosecution, and intervention of child abuse. Memphis CAC employees include forensic interviewers, therapists, and advocates.

Compass and the Memphis Child Advocacy Center also share a common therapeutic approach. We both have clinicians trained in Trauma-focused Cognitive Behavioral Therapy (TF-CBT). This therapy modality is a best practice approach to treatment for youth who have experienced trauma. We are pleased that Compass also has chosen this best practice approach.

We recognize that our community needs more quality mental health resources for children and adolescents. Upon completion of their expansion project, Compass Intervention Center will be the only behavioral health system dedicated exclusively to treating children in Memphis/Shelby County. Increased capacity to provide this level of treatment for children and adolescents will meet a critical need in our community.

Compass Intervention Center has committed to providing quality services for kids facing the toughest of challenges. Their clients are predominantly underserved from low-income families. Successful intervention with these children not only greatly enhances our lives, but is an investment in our community.

Sincerely,

Virginia Stallworth
Executive Director

175

Mental Health America
of Middle Tennessee

October 1, 2015

Melanie Hill, Executive director
Tennessee Health Services and Development Agency
502 Deaderick Street
Andrew Jackson Bldg., 9th Floor
Nashville, TN 37243

Re: Compass Intervention Center

Dear Ms. Hill:

As the CEO of Mental Health America of Middle Tennessee, I am writing to urge you to strongly consider Compass Intervention Center's certificate of need application. Two of our staff work in West Tennessee.

Our 70-year-old nonprofit agency focuses on advocacy, education, and referrals for families and individuals impacted by behavioral health. Our programs focus on suicide prevention, Alzheimer's support, domestic violence support groups, school retention and academic success, a helpline, and more. We also provide professional education and CEUs for a variety of professionals. In West Tennessee we specifically focus on suicide prevention, school retention and academic success, and professional education.

There is a great need in our community and region for additional capacity for child and adolescent mental health services. The vast majority of psychiatric beds in the region are dedicated to treating adult patients, resulting to difficult referrals when we need to help identify services for children and adolescents. Even the National Institute of Health and NIMH (mental health) now recognize the importance of early treatment. According to NAMI, half of all lifetime mental illness is diagnosable by age 14, but most people do not get help until age 24, on average.

Aside from the dire need for these beds, I must also compliment Compass for being willing to expand to meet this need. They are excellent in their treatment of children and youth.

We offer our full support for Compass in this endeavor.

Respectfully submitted,

Tom Starling, EdD
President/CEO

176

295 Plus Park Blvd, Suite 201 ~ Nashville, TN 37217 ~ (615) 269-5355 ~ Fax: (615) 269-5413

The Richard G. Farmer & Allen O. Battle
CRISIS CENTER
SUICIDE AND CRISIS INTERVENTION SERVICE

October 1, 2015

Melanie Hill, Executive Director
Tennessee Health Services and Development Agency
502 Deaderick Street
Andrew Jackson Bldg., 9th Floor
Nashville, TN 37243

Re: Compass Intervention Center Certificate of Need Application

Dear Ms. Hill:

The Memphis Crisis Center (MCC) strongly supports Compass Intervention Center's Certificate of Need application. The MCC provides help, builds hope, and save lives through our volunteer-powered hotlines. Our trained volunteers—using a combination of empathic listening, collaborative problem-solving and crisis intervention—help callers with immediate problems and link them to the long-term professional resources they need to cope and overcome.

Along with the main crisis line, we administer the Call4Kids Hotline, the Elder Lifeline, the HIV Care Line, and serve as the local affiliate of the National Suicide Prevention Lifeline and the National Veterans Line. We also provide after-hours answering services for the Rape Crisis Center and the Family Safety Center.

Through our Call4Kids Line, we are aware of the great need for additional community capacity for child and adolescent mental health services—especially residential treatment options. Knowing the quality of the work of Compass and our own need to have adequate community resources to meet our own client needs, we offer our full support for Compass in this endeavor.

Please do not hesitate to contact me should you have any questions or need more information.

Sincerely,

Mike LaBonte
Executive Director
Office: (901) 448-2802
Fax: (901) 448-4030
Email: mike.labonte@crisis7.org
Website: www.MemphisCrisisCenter.org

177

AMERICAN FOUNDATION FOR
Suicide Prevention

October 21, 2015

Melanie Hill, Executive Director
Tennessee Health Services and Development Agency
502 Deaderick Street
Andrew Jackson Bldg., 9th Floor
Nashville, TN 37243

Re: Compass Intervention Center

Dear Ms. Hill:

On behalf of the Memphis Mid-South Chapter of the American Foundation for Suicide Prevention, I express our support for Compass Intervention Center's Certificate of Need application.

The Memphis-MidSouth Chapter of AFSP does not provide crisis services; we depend on partnering agencies with which we have made strategic alliances to refer folks in need in our community. Services are needed to support individuals and families in all socio-economic categories, all neighborhoods, and all age groups. It is imperative that we have a referring resource for children and adolescent services - suicide and mental health issues affect everyone in the family, and the youngest members sometimes can be overlooked for care. Compass Intervention Center provides that much needed resource for families to heal and thrive.

There is a great need in our community and region for additional capacity for child and adolescent mental health services. The vast majority of psychiatric beds in the region are dedicated to treating adult patients, and as a result accessing child and adolescent services is increasingly difficult.

We strongly recommend Compass Intervention Center for their Certificate of Need application. Thank you for your interest and support of mental health issues in our community. Please do not hesitate to contact me should you have any questions or need more information.

Sincerely,

Mary Jean Coleman

Mary Jean Coleman, MSW
American Foundation for Suicide Prevention
Senior Director, Southern Division

178

November 4, 2015

Melanie Hill, Executive Director
Tennessee Health Services and Development Agency
502 Deaderick Street
Andrew Jackson Bldg., 9th Floor
Nashville, TN 37243

Re: Compass Intervention Center

Dear Ms. Hill:

On behalf of The Oaks at La Paloma and Foundations Memphis, I want to express our strong support for Compass Intervention Center's Certificate of Need application.

The Oaks at La Paloma and Foundations Memphis are partners in a comprehensive system that treats alcohol, drug and co-occurring disorders. Together we make up a full continuum of care for adult patients with a focus on individualized treatment and a philosophy of recovery. We are a primary provider for these critical services in our community.

There is a great need in our community and region for additional capacity for child and adolescent mental health services. Most of the inpatient psychiatric beds in Memphis are for adult patients, and as a result accessing child and adolescent services is increasingly difficult. Compass works with complex adolescent patients, treating mental health needs and dual diagnosis. They are dedicated to providing quality care to the children and families they work with.

Again we offer our full support for Compass in their Certificate of Need Application. Please do not hesitate to contact me should you need more information.

Sincerely,

Paige Bottoms, Group CEO
Foundations Recovery Network
615-372-8928
Paige.Bottoms@FRNmail.com

179

MEMPHIS UNION MISSION
"Rebuilding lives since 1945"

Men's Emergency Shelter | Opportunity Center | Calvary Colony | Wright Transitional House | Moriah House | Intact Family Ministry | Grace Church

November 18, 2015

Ms. Melanie Hill, Executive Director
Tennessee Health Services and Development Agency
Andrew Jackson Building 9th Floor
502 Deaderick Street
Nashville, TN 37143

Re: Compass Intervention Center

Dear Ms. Hill:

Memphis Union Mission is honored to serve among the network of agencies who provide a myriad of services to our community's most vulnerable citizens. Providing these critical services often become the safety net an individual or family may need to overcome their dire situation.

When a strong and vibrant community of service providers are doing what they do best - serving people - the community benefits. Substance abuse issues are dealt with, behavioral and mental health disorders are addressed, and families are restored. The entire community benefits.

One agency that is key to the success of addressing psychiatric and dual diagnosis disorders for children and adolescents here in Shelby County is *Compass Intervention Center*. Children and adolescents become adults, and adults who lack a high school education are at high risk of homelessness. Adolescent substance abuse which continues into adulthood often becomes the precipitate for an individual's homelessness. Childhood abuse, left unaddressed, may set the stage for a lifetime of behavioral issues. The entire community is affected.

We would ask that you support *Compass Intervention Center's* Certificate of Need Application to add 24 new beds and additional outpatient and support space.

Respectfully,

D. Scott Bjork
President & CEO

180

Greater Community Temple COGIC
Bishop Brandon B. Porter

June 24, 2015

It is my pleasure to write a letter in support of the Compass Intervention Center's expansion project. I am particularly drawn to the organization's focus on treating disadvantaged children with severe and chronic mental health and behavioral issues.

Greater Community Temple Church of God in Christ, the church where I pastor, has always been a church that catered to the community. Our motto is, "A church in the heart of the community with the community in its heart." We are committed to building up the community through our outreach efforts, and we support any entity with the same goal and purpose. We endorse any opportunity for positive reinforcement, such as the treatment program that Compass Intervention Center endeavors to employ.

Not only am I the pastor of Greater Community Temple, but I am also a General Board member of the Churches Of God In Christ, Inc., whose headquarters happens to be in Memphis, Tennessee. As a representative for the National Church and this headquarters region, one of my objectives is to be an advocate for programs that offer proactive solutions to the problems that plague our city.

Because of the great need for a program in our area willing to treat youth with extreme behavioral challenges, I believe that the completion of the expansion project is vital. Currently, not enough inpatient programs exist, and the result is some youth's becoming delinquent and part of the already overcrowded penal system, rather than their getting the treatment that they really need and/or deserve. The addition of the inpatient children's services to the current curriculum of care may help remedy the problem and subsequently lower our city's crime statistics.

Overall, the Compass Intervention Center's expansion program is a notable endeavor. I am convinced that its fruition will prove to be a welcomed asset to Memphis and its surrounding communities.

Sincerely,

Bishop Brandon B. Porter
Senior Pastor
Greater Community Temple COGIC

TCSW
Tennessee Conference on Social Welfare

November 16, 2015

Melanie Hill, Executive Director
Tennessee Health Services and Development Agency
502 Deaderick Street
Andrew Jackson Bldg., 9th Floor
Nashville, TN 37243

Re: Compass Intervention Center

Dear Ms. Hill:

I am writing in support of Compass Intervention Center's Certificate of Need application. My organization, the Tennessee Conference on Social Welfare (TCSW), has a very positive relationship with Compass Intervention Center. They have an excellent reputation for providing innovative, evidence-based care of children and youth, specializing in trauma recovery and treatment of co-occurring mental health and substance abuse disorders. Notably, they provide treatment for predominantly underserved, low-income youth. An expansion of their program will add important services in Tennessee and the Mid-South for children with severe and chronic mental illnesses.

Compass Intervention Center is uniquely qualified to provide high-quality services to an increased number of children and youth. Their entire clinical team is trained in Trauma-Focused Cognitive Behavioral Therapy. The organization provides clinical internships for Bachelor and Master's degree students attending the University of Tennessee, the University of Memphis, the University of Mississippi, and Harding and Union Universities. Compass Intervention Center also recently piloted the HERO program to screen and divert teens with minor offenses out of the juvenile justice system and into treatment.

On behalf of TCSW, I fully endorse Compass Intervention Center's certificate of need application. Approving their application will enable Compass Intervention Center to expand the scope and impact of an already successful program.

Sincerely,

Terri Lawson

Terri Lawson, LAPSW, ACSW
Executive Director

CAMELOT
SERVING OUR COMMUNITY SINCE 1972

June 29, 2015

I am writing a letter of support for Compass Intervention Center's expansion. The level of need in our community is high. The children that they serve face an overwhelming amount of barriers to health including higher amounts of violence and trauma exposure, higher numbers of contact with the justice system, economic and educational deficits and a lack of appropriate treatment resources. Existing inpatient programs for children and adolescents are consistently full, and/or not accepting patients.

They have the ability to work with even the toughest kids. They believe all children should be offered superior care no matter their circumstances. At Compass Intervention Center, they often accept challenging children that have difficulty gaining access to services. They recognize that every child and family is unique and that we have to offer individualized, culturally competent care. Their satisfaction comes from helping children and families make meaningful and lifelong changes in their lives.

West Tennessee has a great deal of need for more resources and could benefit greatly from the expansion of Compass. Please do not hesitate to contact me with any further questions.

Sincerely,

Jennifer Predmore, LAPSW

Vice President West TN Region

901-230-1116

JPredmore@camelotcare.com

www.thecamelotdifference.com

183

CAMELOT of WEST TENNESSEE
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FAX 901.348.1271
www.thecamelotdifference.com

UNION UNIVERSITY
GERMANTOWN

October 20, 2015

Melanie Hill, Executive Director
Tennessee Health Services and Development Agency
Andrew Jackson Building 9th Floor
502 Deaderick St.
Nashville, TN 97243

Ms. Hill:

It is our pleasure to write a letter in support of Compass Intervention Center's proposal to upgrade and expand its services.

Compass Intervention Center is a 108-bed Residential Treatment Center for children and adolescents who possess psychiatric and dual diagnosis disorders. In addition, it provides intensive outpatient services and a partial hospital program. They predominantly serve individuals who are underserved, low-income, and have the greatest need across domains. Compass Intervention Center chooses to work with even the most challenging kids that have difficulty finding agencies that will provide assistance.

This agency effectively meets a crucial need for our community. The children and youth that they serve face an overwhelming amount of barriers to health, including greater amounts of violence and trauma exposure, higher numbers of contact with the justice system, economic and educational deficits, and a lack of appropriate treatment resources. Existing inpatient programs are consistently full and/or not accepting new patients. As we look at the mental health crisis in our country, we are reminded of the great need within our community for additional mental health services.

With effective and consistent care, children and youth can mitigate the barriers and negative effects of trauma that exist in their lives. Compass Intervention Center data reflects that their programs are focused on safety, clinical outcomes, and service to patients. Patient satisfaction and outcome measures continue to improve at the agency. The agency is committed to continual improvement of treatment outcomes to ensure the highest quality of service.

The agency specializes in children's trauma recovery and the treatment of co-occurring mental health and substance abuse disorders. Their clinical team is trained in Trauma-Focused Cognitive Behavioral Therapy (TF-CBT). Within their trauma program, they have seen a

184

2745 HACKS CROSS ROAD GERMANTOWN, TENNESSEE 38138 901.759.0029 FAX: 901.759.1197 www.uu.edu/gtown

positive impact in the lives of the children they work with. In addition, they utilize innovative approaches to care and are invested in their communities. They not only serve children and youth who possess psychiatric and dual diagnosis disorders but they also provide community education and awareness to assist with eliminating the stigma of mental health.

Due to the quality of care and effective work accomplished at the agency, the School of Social Work at Union University regularly places Bachelor's of Social Work (BSW) and Master's of Social Work (MSW) students at the agency for their field placement. Students walk away from their field placement at Compassion Intervention Center armed with knowledge, skills, and a strong level of competency that helps them in successfully transitioning to their careers as social work practitioners. We are thankful for Compass Intervention Center's willingness to serve our students and assist them in preparation for social work practice.

In conclusion, we fully support the efforts of Compass Intervention Center as they seek funding to enhance and grow their services. As mentioned above, there is a critical need for more mental health services for children and youth. Compass Intervention Center has the ability to provide quality and effective care that can make a lasting positive impact on its clients, their families, and the community as a whole.

Should you have questions or need more information, feel free to contact us at 901-312-1921 or by email (rbohner@uu.edu or kmatthews@uu.edu).

Sincerely,

LCSW

Rebecca Bohner, LCSW
Director of BSW Field Education
Union University, School of Social Work, Germantown Campus

Katrinna Matthews, LMSW, LAPSW
Director of MSW Field Education
Union University, School of Social Work, Germantown Campus

Supplemental #1
-COPY-

Compass Intervention Center

CN1606-025

SUPPLEMENTAL #1
June 29, 2016
12:31 pm

AFFIDAVIT

STATE OF TENNESSEE

COUNTY OF SHELBY

NAME OF FACILITY: COMPASS INTERVENTION CENTER

I, JEREMY PITZER, after first being duly sworn, state under oath that I am the applicant named in this Certificate of Need application or the lawful agent thereof, that I have reviewed all of the supplemental information submitted herewith, and that it is true, accurate, and complete.

CEO
Signature/Title

Sworn to and subscribed before me, a Notary Public, this the 28th day of JUNE, 2016, witness my hand at office in the County of SHELBY, State of Tennessee.

Terri Sweet
NOTARY PUBLIC

My commission expires 10/5, 2019.

HF-0043

Revised 7/02

TERRI SWEET
STATE OF TENNESSEE NOTARY PUBLIC
SHELBY COUNTY
MY COMMISSION EXPIRES 10-5-2019

2. **Section A, Applicant Profile, Item 5**

Please provide a brief description of the management/operating entity's expertise to operate this facility/service. Brief bio's outlining areas of expertise and experience of the senior management will be helpful.

Universal Health Services, Inc. is the largest facility-based behavioral health provider in the country, with its subsidiaries operating 216 behavioral health facilities in 37 states, Washington, DC, Puerto Rico, the U.S. Virgin Islands and the United Kingdom. Our facilities are consistently recognized for excellence, and in 2014 over 40 facilities were recognized by the Joint Commission as Top Performers on Key Quality Initiatives.

Jeremy Pitzer, CEO of Compass is a Licensed Clinical Social Worker and has 13 years of experience in behavioral health. Prior to coming to Compass in 2011, Jeremy was the Director of Clinical Services and Assistant Administrator at The Pavilion Behavioral Health System in Champaign, Illinois, a behavioral health facility treating children, adolescents and adults for psychiatric and substance abuse disorders. During an eight year tenure at the Pavilion, Jeremy was trusted with many roles including Mental Health Tech, Admissions Coordinator, Business Development Coordinator, Patient Advocate, Hospital Staffing, Interim Residential Director, and Interim Admissions Director.

Jeremy has two years of experience in Community Based Mental Health, leading a crisis team that provided mobile assessment and in-home services to Medicaid recipients in a seven county area. Jeremy is active in community activities, serving on a variety of committees and promoting the behavioral health field. Most recently Jeremy has been the Chair of the Region VII Policy and Planning Council for the Tennessee Department of Mental Health and Substance Abuse Services.

Fred Woods, CFO of Compass, has over 40 years of experience in Healthcare Finance. The original Comptroller at Lakeside Hospital in 1974, Fred has acquired vast experience in all aspects of hospital management. Fred has worked for several behavioral health and med/surg hospitals, as well as in the health insurance industry and private ventures. Mr. Woods was a Regional CFO with Comprehensive Care Corp. from 1991-1997 and with Tenet Healthcare from 1997-2000. He was the CFO with CAPP management, a MSO that managed approximately 2 million lives, and served as the Assistant Director/CFO for Loma Linda University Behavioral Medical Center.

The management fee is not specified in the Management/Operating Entity Agreement. Please provide a management operating entity agreement that specifies the management fee amount or percentage assigned to the proposed project.

The management fee is a variable fee because the number of facilities and the total cost allocated change each year, and is not included in the Management/Operating Entity Agreement. The management fee for Compass in 2015 was $330,480 and the management fee for 2016 will be $439,560 ($36,630/month). Future allocations will not be impacted by the proposed project.

4. **Section A, Applicant Profile, Item 13**

Please clarify if the applicant is contracted for Medicaid in Arkansas and Mississippi.

Compass is currently contracted with Arkansas Medicaid and will seek a contract with Mississippi Medicaid if this proposed project is approved.

Please clarify if children in state custody will be admitted to the new proposed 48 inpatient psychiatric child and adolescent units. If so, does the applicant have a letter of support from the Department of Children's Services?

Children in state custody will be admitted to the new proposed inpatient psychiatric facility. We do not currently have a letter of support from DCS.

Please clarify if a Tennessee Department of Children's Services' contract is needed to admit children in state custody for inpatient psychiatric services.

A contract with DCS may not necessarily be required, if coverage is approved through TennCare. However there are circumstances where a single-case agreement (DCS Unique Care Agreement) may be made. We have executed these single-case contracts in the past with DCS, and anticipate the need will arise with the addition of inpatient services. We are also amenable to discussing other contracting opportunities with DCS.

5. **Section B.I. Project Description**

The applicant notes Lakeside had to deflect at least 153 child and adolescent patients due to capacity. According to the 2014 Lakeside JAR the hospital only staffs 25 of the 55 inpatient psychiatric beds licensed as child and adolescent. Please discuss the reason Lakeside Behavioral Health System is not staffing all their 55 licensed inpatient child and adolescent beds.

For clarification, it should be noted that Lakeside reports (2014 data) staffing 25 adolescent beds and 24 child beds for a total of 49 staffed beds on 55 licensed beds. They are effectively able to staff all beds at this point. During 2015 and 2016, there are numerous occasions where they reach capacity of licensed beds.

It is noted both the applicant and Lakeside Behavioral Health System is owned by Universal Health Services, Inc. Since Lakeside Behavioral Health System (which is also located in Shelby County) staffs only 25 of their 55 child and adolescent inpatient psychiatric beds, has Lakeside given consideration to delicense the unstaffed 30 licensed beds if this project is approved? If not, why?

Please see above, the number 25 was referring to adolescent beds. The [illegible]ed for 55 total child and adolescent beds. While we cannot speak for Lakeside, they are able to currently staff its beds and would not have any interest in delicensing any beds.

Please indicate the reason the applicant is not constructing a hospital in a location such as Jackson (Madison County), TN which is more centrally located in the Grand Region of West Tennessee.

We are not proposing to construct a new facility in Jackson or other centrally located area for a few reasons. First the heart of our proposal is to build a one-of-a-kind comprehensive children's psychiatric system. This inherently requires onsite integration of the proposed project into existing services and levels of care. Secondly, the undeveloped portion of our existing property allows for the construction of the propped facility without the unnecessary costs associated with identifying and acquiring property elsewhere. Lastly, onsite expansion allows for greater synergy with existing human, support, and administrative resources.

The applicant notes occupancy in the Shelby/Memphis region as a percentage of staffed beds is over 86%. What is the occupancy as a percentage of total licensed child and adolescent beds?

The overall occupancy on *licensed* beds for Mental Health Hospitals in the region is 79.5% in the Current Year combined JAR, Report 2. Lakeside reported 18,481 under 18 patient days in 2014, equating to an occupancy of over 92% of licensed child and adolescent beds (2014 Lakeside JAR). St. Francis reports 6359 under 18 patient days resulting in an occupancy on licensed beds of 50% (2014 St. Francis JAR). For these two facilities, the combined occupancy on *licensed* beds is 75.6%. There is no data for Crestwyn available yet.

How many licensed child and adolescent beds in the proposed service area are not staffed and where?

Per the Current Year JAR reports the vast majority licensed child and adolescent beds are staffed. For 2014, Lakeside reports staffing 49 of its 55 licensed beds, St. Francis reports staffing all 35 of its licensed beds. For these two facilities, the combined percentage of licensed beds that are staffed is 93.3%. There is no data for Crestwyn available yet.

The applicant notes in 2016 over 1,000 screenings and assessments were completed. However, please clarify if TennCare patients must be assessed again by the Youth Villages Crisis Team for possible inpatient placement.

Youth Villages or another designated mobile crisis teams would need to assess or approve patients for inpatient assessment. This statistic is meant to demonstrate that demand for child

and adolescent services continues to rise, and that increasing numbers of providers and families are turning to Compass for help.

The applicant notes Crestwyn Hospital project was recently implemented. Please clarify when the hospital opened.

Crestwyn Hospital began accepting patients in early May, 2016. We have been given the date of May 2, 2016, however we do not have firsthand knowledge that they were accepting patients that day.

It is noted by the applicant the current staffed beds in service often do not meet the community demand for inpatient services. Please clarify why all licensed child and adolescent inpatient beds are not totally staffed in the proposed service area if the community demand for inpatient services are not currently met.

The most recent Hospital JAR data indicates that Lakeside was able to staff 49 of its 55 licensed Child and Adolescent beds. There is every indication that they are able to fully staff all beds as they have been frequently at capacity in 2015 and 2016. St. Francis reports staffing all of its child and adolescent beds. 93.3% of licensed child and adolescent bed in the service areas are staffed. There is no data for Crestwyn available yet.

Community demand for services is not met for several reasons:

- Two historic primary providers (St. Francis and Lakeside) are frequently full or unable to accept patients.
- There are times where mobile crisis is unable to locate a bed anywhere for children in need of inpatient services. This is at best not ideal, and often creates a dangerous situation.
- Additional capacity of Crestwyn project does not fully address population based need, or the increased actual need for bed capacity.

Please specify the age range of patients who will be admitted to the two proposed units.

We will potentially accept patients ages 5-17 to both units. The design of the two distinct units allows for flexibility in managing changing patient population demographics. For clarification, the children and adolescent will participate in different programs, and each age group will room with, and in proximity to their appropriate peer group.

Please clarify if there will be separate units for male and female adolescents. If not, why?

Male and female adolescent patients will not have designated separate units. However, as discussed above, the design of the facility allows for sleeping areas to be segregated by age and/or gender. Males and Females will not share rooms. As a standard practice in behavioral health, Adolescent Males and Females will participate in programming together (classroom, groups, activities).

Please clarify if the applicant will offer inpatient chemical dependency services.

We will not be providing inpatient chemical dependency services (Medical Detox).

Please describe the 2,250 SF expansion/renovation of the existing dining services.

The dining services expansion and renovation consists of the conversion of the existing approximately 700 sq./ft. Dining Area into a new food preparation (250 sq. /ft.) area and food service area (450 sq./ft.). Serving line equipment will be upgraded to better serve the growing patient population. The existing Gymnasium (approximately 1500 sq. /ft.), which is being replaced as part of the building addition component, will be converted into expanded dining space. Finishes in both areas will be upgraded to provide greater durability, patient-friendly aesthetics and enhanced acoustical performance.

Please clarify which unit will serve those that are dually diagnosed with a psychiatric and chemical dependency diagnosis.

Adolescents that are dually diagnosed will receive appropriate treatment interventions based on needs and diagnoses, which be addressed through group, individual and family therapy. We have no plans to identify a unit specific to this population.

Please clarify if the proposed units will admit patients with intellectual disabilities.

Patients with intellectual disabilities will be admitted to the facility when appropriate. Admission criteria allows for case-by-case review of patients with an IQ below 70.

6. **Section B, Project Description Item II.A**

The square footage and cost per square footage chart is noted. However, please include the total GSF in "line E." for the renovated column.

- Please see the updated Square footage Chart on the following page

Private/Semi-Private Room and Bed Mix

Bed Type	Proposed Private Rooms/Beds		Proposed Semi-Private Rooms/Beds	
	Rooms	Beds	Rooms	Beds
Child Psych	0	0	12	24
Adolescent Psych	0	0	12	24

*The beds allocated to child and adolescent programs are not fixed and will change depending on the patient population demographics at any time. This is a common standard practice in inpatient behavioral health.

7. **Section B.II.C Applicant's Need for the Proposed Project**

The applicant notes in the first three months of 2016 Lakeside had to deflect at least 153 child and adolescent patients due to capacity and St. Francis deflected over 100 patients in March 2016 due to capacity. Please clarify if the capacity the applicant is referring to licensed capacity or staffed capacity.

For Lakeside, here we are referring to licensed capacity. They are literally full and unable to accept any more patients. For St. Francis, our understanding is that it is historically a mix a being at licensed and staffed capacity at different times. From our perspective the staffed capacity at St. Francis appears to have wide variations throughout the year. It should be noted, when these local facilities are unable to accept patients, it quickly becomes a substantial issue for providers and families with children who need inpatient care.

Please clarify what is meant by "deflections". Does this mean patients met inpatient psychiatric medical necessity criteria and was sent elsewhere for inpatient services?

Here we are referring to capacity deflections. These patients generally meet criteria and are given less-than-desirable dispositions that include being sent out of area for treatment, being managed in other settings including ERs, DCS offices, and simply put on a waiting list.

10. Section C. (Need) 1. Specific Criteria (Inpatient Psychiatric Units) Item C.2.a

Please complete the following tables to determine psychiatric bed need.

	Population 2020	Gross Need Pop. X (30 beds/100,000)	Current licensed beds	Net Need
	Child and Adolescent 0-17	Child and Adolescent 0-17	Child and Adolescent 0-17	Child and Adolescent 0-17
Proposed Service Area	395,172	118.5	105 (24 Child, 81 Adolescent)	13

- The CON 2016-2020 population estimates provided by the Tennessee Department of Health provide data for 0-17, but this data does not break out for 0-12 and 13-17. Tennessee and US Census estimates have been useful in informing our bed need, however they break out data by different age groups (0-4, 4-9, 10-14, and 15-19) that do not correspond with the criteria. We have requested custom data from the Department of Health regarding this and have not yet received a response. As such, the table above is completed with total 0-17 population and bed need.
- There are 105 licensed Child and Adolescent beds (0-17) Child and Adolescent beds are not licensed separately. The numbers for "Current Licensed Beds" are based on total licensed beds and available data from children specific beds at Lakeside. Based on population estimates for 2020, the total number of child and adolescent beds needed for the service area is 118.5, with 105 licensed beds available. The "net need" will not change regardless of the data breakout, and the proposed licensed beds would be used for either age group at any given time.

(#4) Total need should be adjusted by the existent staffed beds operating in the area.

The table of beds by licensed mental health hospitals on the bottom of page 17 is noted. However, it is unclear how many beds are licensed and staffed at Lakeside Hospital. On page 25 of the application the applicant states 25 beds are staffed with a capacity of 55 at Lakeside Hospital. In the table on page 17 the staffing is noted at 49 beds. Please clarify.

For the requested clarification, Lakeside is licensed for 261 beds in the Mental Health Hospital category. Of these 55 are designated for children and adolescents (Per historical data and 2005 CON summary). Per the most recent JAR, 49 of these 55 are staffed.

11. Section C. (Need) 1. Specific Criteria (Inpatient Psychiatric Units) Item C.2.

It is noted every County in the service area is designated as a Medically Underserved in the Mental Health Category Area by the U.S. Health Resources and Services Administration. Please clarify if this applies to Child and Adolescent psychiatric inpatient.

Medically Underserved does not specifically refer to inpatient services, but general lack of access to services due to various barriers.

12. Section C. (Need) 1. Specific Criteria (Inpatient Psychiatric Units) Item C.4.

It is noted the applicant will serve primarily shorter-term acute patients. Please indicate where child and adolescent long-term mental health inpatients are sent for inpatient psychiatric treatment in the proposed service area.

While we do expect some long-term patients, the vast majority of child and adolescent patients do not need this level of care for extended periods of time. Long-term patients are treated throughout the state in the various licensed mental health hospitals that treat children and adolescents

13. Section C. (Need) 1. Specific Criteria (Inpatient Psychiatric Units) Item D.1.

It is noted the applicant responded to the question in terms of staffed inpatient child and adolescent psychiatric beds. Please also respond to the question by using licensed (not staffed) occupancy and utilization of similar services.

The overall occupancy on *licensed* beds for Mental Health Hospitals in the region is 79.5% in the Current Year combined JAR, Report 2. Lakeside reported 18,481 under 18 patient days in 2014, equating to an occupancy of over 92% of licensed child and adolescent beds (2014 Lakeside JAR). St. Francis reports 6359 under 18 patient days resulting in an occupancy on licensed beds of 50% (2014 St. Francis JAR). For these two facilities, the combined occupancy on *licensed* beds is 75.6%. There is no data for Crestwyn available yet.

14. Section C. Need, Item 4.

Please complete the following chart (following page).

	Shelby	Madison	Tipton	Fayette	Hardeman	Lauderdale	Dyer	McNairy	Chester	Hardin	Crockett	Haywood	Gibson	Lake	Obion	Weakley	Carroll	Henry	Henderson	Total Service Area	State of TN
Total Population-Current Year - 2016	959,361	103,234	67,250	44,637	27,283	28,658	39,306	27,179	18,260	26,557	14,884	18,410	51,394	8,299	31,692	36,066	28,380	33,439	29,349	1,593,638	6,812,005
Total Population-Projected Year - 2020	981,022	106,352	71,196	48,510	27,278	29,186	39,872	27,760	18,978	26,783	15,080	18,128	52,438	8,579	31,559	36,360	28,207	34,055	30,298	1,631,641	7,108,031
Total Population-% change	2.3%	3.0%	5.9%	8.7%	0.0%	1.8%	1.4%	2.1%	3.9%	1.0%	1.3%	-1.5%	2.0%	3.4%	0.4%	-0.8%	-0.6%	1.8%	3.2%	2.4%	4.3%
Age 0-17 Population 2016	247,503	24,762	16,904	9,670	5,383	6,653	9,295	5,986	3,959	5,353	3,564	4,386	12,355	1,250	6,842	7,043	6,107	6,896	6,825	390,736	1,570,687
Age 0-17 Population 2020	252,312	25,201	17,157	10,014	5,143	6,580	9,309	5,860	3,880	5,204	3,554	4,178	12,397	1,187	6,619	6,975	5,927	6,777	6,898	395,172	1,614,001
Age 0-17 Population-% change	1.9%	1.8%	1.5%	3.6%	-4.5%	-1.1%	0.02%	-2.1%	-2.0%	-2.8%	-0.3%	-4.7%	0.3%	-5.0%	-3.3%	-1.0%	-2.9%	-1.7%	1.1%	1.1%	2.8%
Age 0-17 Population % of Total Population	25.7%	23.7%	24.1%	20.6%	18.9%	22.5%	23.3%	21.1%	20.4%	19.4%	23.6%	23.0%	23.6%	13.8%	21.0%	19.2%	21.0%	19.9%	22.8%	24.2%	26.80%
Median Age	34.6	36.8	36.6	41.9	39.2	36.4	39.3	41.6	36.2	43.5	39.6	39.2	39.9	38.3	41.4	37	42	44.3	39.7	39.34	38
Median Household Income	41,880	39,195	50,557	53,624	33,734	33,960	36,356	35,114	39,777	32,222	32,843	32,115	33,481	25,973	38,157	34,767	34,747	32,760	37,746	34,878	41,715
TennCare Enrollees	248,539	22,972	12,730	6,537	6,763	7,525	9,955	7,264	3,615	6,748	3,817	5,608	12,538	2,127	7,258	6,906	7,246	7,522	6,739	392,409	1,366,295
TennCare Enrollees as % of Total	24.3%	20.4%	20.5%	19.0%	21.5%	25.9%	23.9%	25.2%	18.2%	23.4%	22.1%	27.4%	24.5%	25.3%	20.4%	17.3%	21.1%	20.3%	21.5%	22.2%	20.0%
Persons Below Poverty Level	188,373	19,273	9,244	4,690	5,941	5,450	7,746	5,583	2,790	5,827	2,788	3,973	8,339	2,059	5,012	6,533	5,388	6,272	4,402	299,683	939,056
Persons Below Poverty Level as % of Total	20.9%	20.6%	15.8%	12.2%	25.1%	23.1%	20.8%	22.1%	18.2%	22.6%	19.7%	21.4%	17.3%	42.5%	16.2%	20.8%	19.6%	20.0%	16.5%	18.8%	17.2%

*Data from Department of Health CON Age Group Projections, Tenncare Fiscal Report 2014-2015, and US Census Bureau

15. Section C. Need, Item 5. (Utilization of other providers' services in the Applicant's service area)

Please update the following chart showing historical utilization of the primary service area.

2012-2014 Regional Area Mental Health Hospital Child and Adolescent Inpatient Psychiatric Beds

Facility	County	2014 Licensed Beds	Patient Days			Licensed Occupancy			% Change 2012-2014
			2012	2013	2014	2012	2013	2014	
Lakeside	Shelby	55	13,482	14,205	18,481	66.9%	70.7%	92.1%	25.2%
St. Francis	Shelby	35	7,113	6,200	6,359	55.5%	48.5%	49.7%	-5.8%
Crestwyn	Shelby	0	0	0	0	N/A	N/A	N/A	N/A
Total		**90**	**20,595**	**20,405**	**24,840**	**62.5%**	**62.1%**	**75.6%**	**13.1%**

All data taken from 2012-2014 individual facility JAR reports.

Lakeside has notified HSDA of its intent to increase their bed capacity by 26 beds. How many of those beds will be child/adolescent?

As the 26 beds represent 10% of their total licensed beds they could use the beds for any inpatient population consistent with their current bed profile.

The applicant states Crestwyn does not plan to treat children. What are the ages of children Crestwyn treats for inpatient psychiatric care?

Per their approved CON, Crestwyn plans to accept up to 15 adolescent patients ages 13-17.

Are their Child/Adolescent programs in the Mississippi and Arkansas portion of the service area?

Yes. Parkwood Hospital operates in Desoto County, Mississippi and has 22 child and adolescent inpatient beds. Oak Ridge Hospital operates in Crittenden County, Arkansas and has 24 inpatient child and adolescent beds.

16. Section C. (Need) Item 6. (The Applicant's Historical and Projected Utilization)

The projected utilization of 27.5% in Year Two of the proposed project is noted. However, please indicate when the applicant expects to report a yearly licensed occupancy of 80% and 90% for the proposed inpatient units?

We have projected occupancy out 5 years, with projected occupancy of 80% in year 5. Based on the growth in projections for the first five years, 90% occupancy would be achieved in year 6. It should be noted that the proposed project is conservative in its projections and assumptions, and the occupancy thresholds might be reached sooner.

Please confirm the historical utilization provided is Residential Inpatient Psychiatric Services.

The historical utilization provided is for existing Residential Services.

17. Section C. (Economic Feasibility) Items 1 and 2. Project Cost Chart

The funding of the proposed project with cash reserves is noted. However, the documentation from the applicant's financial officer notes the funding will be from cash or revolving credit. Please clarify. If necessary, please provide a revised funding letter from the applicant's financial officer.

Universal Health Services, Inc., the ultimate parent for Compass, has committed to funding the project, and may at the time of implementation of the project, will utilize cash reserves or credit, or a combination of both. The footnote mentioned in the original funding letter is including below for verification of the availability of credit. The full 2015 UHS 10-K is included as an attachment at the end of this document. Page 32 of the original application has been updated; please see the replacement on the following page.

"On August 7, 2014, we entered into a Fourth Amendment (the "Fourth Amendment") to our credit agreement dated as of November 15, 2010, as amended on March 15, 2011, September 21, 2012 and May 16, 2013, among UHS, as borrower, the several banks and other financial institutions from time to time parties thereto, as lenders ("Credit Agreement"). The Credit Agreement, as amended, which is scheduled to mature in August, 2019, consists of: (i) an $800 million revolving credit facility ($300 million of borrowings outstanding as of December 31, 2015), and; (ii) a $1.775 billion term loan A facility ($1.720 billion of borrowings outstanding as of December 31, 2015) which combined our previously outstanding term loan A and term loan A2 facilities which were scheduled to mature in 2016;"

18. Section C. (Economic Feasibility) Item 3

The applicant notes the proposed renovation costs are on target with the median and overall cost per-square-foot and falls between the Median and 3rd quartile. Please clarify if the applicant meant construction costs rather than renovation costs.

The Square Footage Chart has been updated. To clarify, the proposed renovated construction cost is $228.13 sq. /ft., slightly above the median. The new construction cost is between the 1st quartile and median at $276.44 sq. /ft. The total construction cost is $272.58 sq. /ft., falling between the median and 3rd quartile.

19. Section C. (Economic Feasibility) Item 4 Historical and Projected Data Chart

Please clarify the reason there was ($102,870) in Provisions for Bad Debt in 2013.

This number represents positive collections of Bed Debt Accounts that had been accrued in prior years and eventually collected in 2013.

Please complete the following for D.9 Historical Data Chart-Other Expenses

D.9 OTHER EXPENSES CATEGORIES	Year 2013	Year 2014	Year 2015
1. Employee Benefits	$345,783	$393,269	$501,097
2. Purchased Services	283,756	281,077	327,647
3. Maintenance	197,680	239,997	222,403
4. Insurance	125,554	187,828	150,661
5. Travel and Education	77,815	87,969	85,840
6. Other Expenses	210,840	231,279	225,085
7. Non-Allocated	(5,668)	18,563	28,821
Total Other Expenses	**$1,235,760**	**$1,439,982**	**$1,541,554**

Please complete the following for D.9 Projected Data Chart-Other Expenses (Proposed 48-beds only)

D.9 OTHER EXPENSES CATEGORIES	Year 1	Year 2	Year 3
1. Employee Benefits	$220,406	$297,482	$334,081
2. Purchased Services	41595	59697	86843
3. Maintenance	27357	33624	48386
4. Insurance	15,682	22505	32739
5. Travel and Education	24300	25000	25500
6. Other Expenses	123,012	123,287	125874
7. Non-Allocated	0	0	0
Total Other Expenses	**$452,352**	**$561,594**	**$653,423**

It appears there is a calculation error for total operating expenses for Year One. Please revise and submit a correct Projected Data Chart.

Thank you for identifying the error, please see the corrected Projected Data Chart on the following page.

It is noted the applicant is projecting a net loss of ($295,864) on a licensed occupancy of 27.5% in Year Two of the proposed project. Please provide a projected Data Chart for Year 3.

Please see the Year 3 data, following the corrected Projected Data Chart.

20. Section C, Economic Feasibility, Item 5

Your response is noted. Please complete the following table identifying the project's gross charge, average deduction from operating revenue, and average net charge per patient day. Please divide the total patient days in Year One of the Projected Data Chart into the total gross charges, deductions from operating revenue total, and total net charges to calculate the charges.

	Year One	Year Two
Average Gross Charge (Gross charges/total days)	$1824.97	$1824.97
Average Deduction (Total Deductions/total days)	$1396.17	$1216.43
Average net Charge Total Net Operating Revenue/total days)	$428.87	$608.54

21. Section C. (Economic Feasibility) 6a. and 6.b.d

It is noted the applicant anticipates revenue from the proposal of $1,751,453 in Year One and $3,362,413 in Year Two. However, this is the Net Revenue. Please specify and provide a replacement page 36.

Changes made, please see replacement page 36 on the following page.

Please compare the proposed charges to those of similar facilities in the service area/adjoining service areas, or to proposed charges of projects recently approved by the Health Services and Development Agency.

The proposed charges for inpatient services are comparable to Lakeside, which charges at $1,800/day. (Verified by Compass and Lakeside CFOs on 6/28/16). The Crestwyn CON proposed average gross charges of $1,438 in 2016 and $1,530 in 2017. Our charges are reasonable and consistent other providers in the service area.

22. **Section C, Economic Feasibility, Item 9 and Section C, Need, Item 1. (Service Specific Criteria-Psychiatric Inpatient Services) C.5**

Please complete the following table for the payor mix in Year 1 is shown in the table below. Please use gross revenue amounts.

Payor Source, Year 1

Payor Source	Gross Revenue	As a % of Total
Medicare	0	0%
Tenncare/Medicaid	2,756,082	40.5%
Commercial	2,820,418	41.5%
Uncompensated	0	0%
Other	1,226,125	18%
Total Gross Revenue	6,802,625	100%

Please note, in the above chart there is not uncompensated care budgeted in the revenues. This is based on two factors primarily; almost all children have insurance, or are eligible for Medicaid coverage, and in our current operations uncompensated care is almost non-existent. This is stark contrast to the provision of adult services.

23. **Section C. (Economic Feasibility) Item 10**

The consolidated balance sheet for Universal Health Services, Inc. for the period ending March 31, 2016 indicates total liabilities of $1,684,400,000 exceed current assets of $1,635,438,000. Please clarify how Universal Health Services, Inc. will fund the proposed project with cash reserves while a current ratio of 1:1 would be required to have the minimum amount of assets needed to cover current liabilities.

Universal Health Services, Inc., the ultimate parent for Compass, has committed to funding the project, and may at the time of implementation of the project, will utilize cash reserves or credit, or a combination of both. While the quarterly consolidated balances sheet does indicate liabilities in excess of assets, as a ratio this is 1:.97, less than a 3% difference between the two numbers. The footnote mentioned in the original funding letter is including below for verification of the availability of credit. The full 2015 UHS 10-K is included as an attachment at the end of this document, and demonstrates the sound fiscal ground that UHS rests upon. Page 32 of the original application has been updated; please see the replacement on page.24 above.

"On August 7, 2014, we entered into a Fourth Amendment (the "Fourth Amendment") to our credit agreement dated as of November 15, 2010, as amended on March 15, 2011, September 21, 2012 and May 16, 2013, among UHS, as borrower, the several banks and other financial institutions from time to time parties thereto, as lenders ("Credit Agreement"). The Credit Agreement, as amended, which is scheduled to mature in August, 2019, consists of: (i) an $800 million revolving credit facility ($300 million of borrowings outstanding as of December 31, 2015), and; (ii) a $1.775 billion term loan A facility ($1.720 billion of borrowings outstanding as

of December 31, 2015) which combined our previously outstanding term loan A and term loan A2 facilities which were scheduled to mature in 2016;"

24. Section C. Orderly Development, Item 3

Please complete the following table for the proposed Year One direct patient care staffing for the proposed 48 bed inpatient beds only.

Position	Child Psychiatry	Adolescent Psychiatry	Total
Director			2
Nurse Mgr.			1.9
RN			5.1
LPN			0
Patient Care Tech			5.2
Psychiatrist			**
Psychologist			**
Licensed Master's Level Therapist			2.1
Non-licensed Master's level therapist			0
Licensed alcohol and Drug Counselor			0
Other***			3.5
Total			***19.8**

It is noted the applicant will be providing programs such as outpatient, intensive outpatient, and partial hospitalization. Please list staffing of these programs by type and number, whether this staff will be shared with any other programs, especially inpatient programs, any age (adult, child/adolescent) or practice specialties. Also include physicians or advance practice nurses who will practice in these programs but will not specifically be on staff.

The direct care inpatient staffing in the grid above is completely separate from our existing facility staffing, with the following exceptions. The "Director" category includes the Director of Nursing and the Director of Clinical Services who will continue to have facility-wide responsibilities over patient care. Outpatient programs are existing services; as such the projected staffing for these programs is accounted for in our current facility staffing. One additional Licensed Master's Level Therapists will be allocated for growth in outpatient services. The remaining patient care staffing above will be exclusive the inpatient program. It should be noted that the average daily census

for the above year-one staffing is 9.2, yielding a very patient-centric direct care EPOB (employee per operating bed) of 1.93.

*In the grid above, only the total staffing is completed as the staff will overlap on children and adolescent programs. It should be noted that we will meet or exceed all staffing requirements of the Department of Mental Health and Substance Abuse Services for each program.

** Psychiatrists and Psychologist are contracted employees and not projected or budgeted as Full-Time Equivalents. For year one, we anticipate two currently contracted psychologists will be providing contracted services and two psychiatrists will be providing psychiatric services.

***Other includes Activities Therapy, staff-in-training, and teacher (specific to new beds).

Please clarify if there will be an addictionologist on staff.

Yes, one of our current physicians is Board Certified in Addiction Medicine.

25. Section C. Orderly Development, Item 8 and 9

It is noted the applicant answered N/A. Please provide a narrative response to each question. In addition, please verify legal proceedings on pages 146-150 of Universal Health Services, Inc.'s Form 10-Q do not apply to these two questions.

Item 8:
Document and explain any final orders or judgments entered in any state or county by a licensing agency or court against professional licenses held by the applicant or any entities or persons with more than a 5% ownership interest in the applicant. Such information is to be provided for licenses regardless of whether such license is currently held.

Compass does not have any final orders or judgments entered in any state or county by a licensing agency or court against our licenses. Keystone Education and Youth Services, LLC, which has 100% Direct Ownership over Keystone Memphis LLC (Compass), does not have any final orders or judgments entered in any state or county by a licensing agency or court against its licenses. The legal proceedings described on pages 146-150 of the original CON application do not apply to this question as they relate to other UHS facilities.

Item 9
Identify and explain any final civil or criminal judgments for fraud or theft against any person or entity with more than a 5% ownership interest in the project.

Compass does not have any final civil or criminal judgments for fraud or theft. Keystone Education and Youth Services, LLC, which has 100% Direct Ownership over Keystone Memphis LLC (Compass), does not have any final orders or judgments for fraud or theft. The legal proceedings described on pages 146-150 of the original CON application do not apply to this question as they relate to other UHS facilities.

SUPPLEMENTAL #1
June 29, 2016
12:31 pm

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(MARK ONE)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2015

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File No. 1-10765

UNIVERSAL HEALTH SERVICES, INC.

(Exact name of registrant as specified in its charter)

Delaware	**23-2077891**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
UNIVERSAL CORPORATE CENTER **367 South Gulph Road** **P.O. Box 61558** **King of Prussia, Pennsylvania** **(Address of principal executive offices)**	**19406-0958** **(Zip Code)**

Registrant's telephone number, including area code: (610) 768-3300

Securities registered pursuant to Section 12(b) of the Act:

Title of each Class	Name of each exchange on which registered
Class B Common Stock, $.01 par value	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act:

Class D Common Stock, $.01 par value
(Title of each Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The aggregate market value of voting stock held by non-affiliates at June 30, 2015 was $12.9 billion. (For the purpose of this calculation, it was assumed that Class A, Class C, and Class D Common Stock, which are not traded but are convertible share-for-share into Class B Common Stock, have the same market value as Class B Common Stock. Also, for purposes of this calculation only, all directors are deemed to be affiliates.)

The number of shares of the registrant's Class A Common Stock, $.01 par value, Class B Common Stock, $.01 par value, Class C Common Stock, $.01 par value, and Class D Common Stock, $.01 par value, outstanding as of January 31, 2016, were 6,595,308; 90,384,960; 663,940 and 23,202, respectively.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the registrant's definitive proxy statement for our 2016 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission within 120 days after December 31, 2015 (incorporated by reference under Part III).

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Universal Health Services, Inc.:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Universal Health Services, Inc. and its subsidiaries at December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, financial statement schedule, and for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Item 9A as *Management's Report on Internal Control over Financial Reporting*. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in *Management's Report on Internal Control over Financial Reporting*, management has excluded Foundations Recovery Network, LLC and Alpha Hospitals Holdings Limited from its assessment of internal control over financial reporting as of December 31, 2015 because the entities were acquired by the Company in purchase business combinations during 2015. We have also excluded Foundations Recovery Network, LLC and Alpha Hospitals Holdings Limited from our audit of internal control over financial reporting. Foundations Recovery Network, LLC and Alpha Hospitals Holdings Limited are wholly-owned subsidiaries whose total assets and total net revenues represent 1% of the related consolidated financial statement amounts as of and for the year ended December 31, 2015.

/s/ PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
February 25, 2016

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,		
	2015	2014	2013
	(in thousands, except per share data)		
Net revenues before provision for doubtful accounts	$ 9,784,724	$ 8,904,071	$ 8,495,089
Less: Provision for doubtful accounts	741,273	698,983	1,127,216
Net revenues	9,043,451	8,205,088	7,367,873
Operating charges:			
Salaries, wages and benefits	4,212,387	3,845,461	3,604,620
Other operating expenses	2,119,805	1,922,743	1,552,795
Supplies expense	974,088	895,693	821,089
Depreciation and amortization	398,618	375,624	337,172
Lease and rental expense	94,973	93,993	97,758
Electronic health records incentive income	(15,815)	(27,902)	(61,024)
Costs related to extinguishment of debt	0	36,171	0
	7,784,056	7,141,783	6,352,410
Income from operations	1,259,395	1,063,305	1,015,463
Interest expense, net	113,494	133,638	146,131
Income before income taxes	1,145,901	929,667	869,332
Provision for income taxes	395,203	324,671	315,309
Net income	750,698	604,996	554,023
Less: Net income attributable to noncontrolling interests	70,170	59,653	43,290
Net income attributable to UHS	$ 680,528	$ 545,343	$ 510,733
Basic earnings per share attributable to UHS	$ 6.89	$ 5.52	$ 5.21
Diluted earnings per share attributable to UHS	$ 6.76	$ 5.42	$ 5.14
Weighted average number of common shares—basic	98,797	98,826	98,033
Add: Other share equivalents	1,897	1,718	1,328
Weighted average number of common shares and equivalents—diluted	100,694	100,544	99,361

The accompanying notes are an integral part of these consolidated financial statements.

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
	2015	2014	2013
Net income	$ 750,698	$ 604,996	$ 554,023
Other comprehensive income (loss):			
Unrealized derivative gains (losses) on cash flow hedges	4,970	17,668	16,963
Amortization of terminated hedge	(336)	(336)	(336)
Minimum pension liability	2,177	(14,270)	14,657
Foreign currency translation adjustment	(1,728)	(2,431)	0
Other comprehensive income (loss) before tax	5,083	631	31,284
Income tax (benefit) expense related to items of other comprehensive income	2,980	1,053	11,940
Total other comprehensive income (loss), net of tax	2,103	(422)	19,344
Comprehensive income	752,801	604,574	573,367
Less: Comprehensive income attributable to noncontrolling interests	70,170	59,653	43,290
Comprehensive income attributable to UHS	$ 682,631	$ 544,921	$ 530,077

The accompanying notes are an integral part of these consolidated financial statements.

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2015	December 31, 2014
	(Dollar amounts in thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$ 61,228	$ 32,069
Accounts receivable, net	1,302,429	1,282,735
Supplies	116,037	108,115
Deferred income taxes	135,120	114,565
Other current assets	103,490	77,654
Total current assets	1,718,304	1,615,138
Property and Equipment		
Land	451,717	435,632
Buildings and improvements	4,181,576	3,948,501
Equipment	1,659,485	1,648,718
Property under capital lease	45,665	40,782
	6,338,443	6,073,633
Accumulated depreciation	(2,694,591)	(2,532,341)
	3,643,852	3,541,292
Construction-in-progress	192,126	138,397
	3,835,978	3,679,689
Other assets:		
Goodwill	3,596,114	3,291,213
Deferred charges	35,357	40,319
Other	448,360	348,084
	4,079,831	3,679,616
	$ 9,634,113	$ 8,974,443
Liabilities and Stockholders' Equity		
Current liabilities:		
Current maturities of long-term debt	$ 62,722	$ 68,319
Accounts payable	366,238	336,447
Accrued liabilities		
Compensation and related benefits	245,117	323,425
Interest	13,284	13,977
Taxes other than income	60,255	112,119
Other	348,803	327,094
Current federal and state income taxes	3,987	1,446
Total current liabilities	1,100,406	1,182,827
Other noncurrent liabilities	278,834	268,555
Long-term debt	3,387,303	3,210,215
Deferred income taxes	315,900	282,214
Commitments and contingencies (Note 8)		
Redeemable noncontrolling interest	242,509	239,552
Equity:		
Class A Common Stock, voting, $.01 par value; authorized 12,000,000 shares: issued and outstanding 6,595,308 shares in 2015 and 6,595,708 shares in 2014	66	66
Class B Common Stock, limited voting, $.01 par value; authorized 150,000,000 shares: issued and outstanding 91,013,487 shares in 2015 and 91,427,258 shares in 2014	910	914
Class C Common Stock, voting, $.01 par value; authorized 1,200,000 shares: issued and outstanding 663,940 shares in 2015 and 664,000 shares in 2014	7	7
Class D Common Stock, limited voting, $.01 par value; authorized 5,000,000 shares: issued and outstanding 23,742 shares in 2015 and 29,121 shares in 2014	0	0
Cumulative dividends	(294,728)	(255,196)
Retained earnings	4,566,521	4,015,387
Accumulated other comprehensive loss	(23,129)	(25,232)
Universal Health Services, Inc. common stockholders' equity	4,249,647	3,735,946
Noncontrolling interest	59,514	55,134
Total Equity	4,309,161	3,791,080
	$ 9,634,113	$ 8,974,443

The accompanying notes are an integral part of these consolidated financial statements.

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 2015, 2014 and 2013
(in thousands)

	Redeemable Noncontrolling Interest	Class A Common	Class B Common	Class C Common	Class D Common	Cumulative Dividends	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	UHS Common Stockholders' Equity	Noncontrolling Interest	Total
Balance, January 1, 2013	$ 234,303	$ 66	$ 903	$ 7	$ 0	$ (205,910)	$2,962,433	$ (44,154)	$ 2,713,345	$ 52,604	$2,765,949
Common Stock											
Issued/(converted) including tax benefits from exercise of stock options	—	—	11	—	—	—	26,869	—	26,880	—	26,880
Repurchased	—	—	(4)	—	—	—	(27,197)	—	(27,201)	—	(27,201)
Restricted share-based compensation expense	—	—	—	—	—	—	664	—	664	—	664
Dividends paid	—	—	—	—	—	(19,621)	—	—	(19,621)	—	(19,621)
Stock option expense	—	—	—	—	—	—	25,835	—	25,835	—	25,835
Distributions to noncontrolling interests	(48,290)	—	—	—	—	—	—	—	—	(13,039)	(13,039)
Other	—	—	—	—	—	—	—	—	—	(511)	(511)
Comprehensive income:											
Net income	32,094	—	—	—	—	—	510,733	—	510,733	11,196	521,929
Amortization of terminated hedge (net of income tax effect of $120)	—	—	—	—	—	—	—	(216)	(216)	—	(216)
Unrealized derivative gains on cash flow hedges (net of income tax effect of $6,390)	—	—	—	—	—	—	—	10,573	10,573	—	10,573
Minimum pension liability (net of income tax effect of $5,670)	—	—	—	—	—	—	—	8,987	8,987	—	8,987
Subtotal - comprehensive income	32,094	—	—	—	—	—	510,733	19,344	530,077	11,196	541,273
Balance, December 31, 2013	$ 218,107	$ 66	$ 910	$ 7	$ 0	$ (225,531)	$3,499,337	$ (24,810)	$ 3,249,979	$ 50,250	$3,300,229

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY—(Continued)
For the Years Ended December 31, 2015, 2014 and 2013
(in thousands)

	Redeemable Noncontrolling Interest	Class A Common	Class B Common	Class C Common	Class D Common	Cumulative Dividends	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	UHS Common Stockholders' Equity	Noncontrolling Interest	Total
Common Stock											
Issued/(converted) including tax benefits from exercise of stock options	—	—	14	—	—	—	41,787	—	41,801	—	41,801
Repurchased	—	—	(10)	—	—	—	(100,739)	—	(100,749)	—	(100,749)
Restricted share-based compensation expense	—	—	—	—	—	—	491	—	491	—	491
Dividends paid	—	—	—	—	—	(29,665)	—	—	(29,665)	—	(29,665)
Stock option expense	—	—	—	—	—	—	29,168	—	29,168	—	29,168
Distributions to noncontrolling interests	(26,016)	—	—	—	—	—	—	—	—	(7,666)	(7,666)
Other	—	—	—	—	—	—	—	—	—	358	358
Comprehensive income:											
Net income	47,461	—	—	—	—	—	545,343	—	545,343	12,192	557,535
Foreign currency translation adjustments	—	—	—	—	—	—	—	(2,431)	(2,431)	—	(2,431)
Amortization of terminated hedge (net of income tax effect of $120)	—	—	—	—	—	—	—	(216)	(216)	—	(216)
Unrealized derivative gains on cash flow hedges (net of income tax effect of $6,529)	—	—	—	—	—	—	—	11,139	11,139	—	11,139
Minimum pension liability (net of income tax effect of $5,356)	—	—	—	—	—	—	—	(8,914)	(8,914)	—	(8,914)
Subtotal - comprehensive income	47,461	—	—	—	—	—	545,343	(422)	544,921	12,192	557,113
Balance, December 31, 2014	$ 239,552	$ 66	$ 914	$ 7	$ 0	$ (255,196)	$4,015,387	$ (25,232)	$ 3,735,946	$ 55,134	$3,791,080

172

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY—(Continued)
For the Years Ended December 31, 2015, 2014 and 2013
(in thousands)

	Redeemable Noncontrolling Interest	Class A Common	Class B Common	Class C Common	Class D Common	Cumulative Dividends	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	UHS Common Stockholders' Equity	Noncontrolling Interest	Total
Common Stock											
Issued/(converted) including tax benefits from exercise of stock options	—	—	14	—	—	—	56,473	—	56,487	—	56,487
Repurchased	—	—	(18)	—	—	—	(224,242)	—	(224,260)	—	(224,260)
Restricted share-based compensation expense	—	—	—	—	—	—	393	—	393	—	393
Dividends paid	—	—	—	—	—	(39,532)	—	—	(39,532)	—	(39,532)
Stock option expense	—	—	—	—	—	—	37,982	—	37,982	—	37,982
Distributions to noncontrolling interests	(51,106)	—	—	—	—	—	—	—	—	(11,114)	(11,114)
Other	—	—	—	—	—	—	—	—	—	(613)	(613)
Comprehensive income:											
Net income	54,063	—	—	—	—	—	680,528	—	680,528	16,107	696,635
Foreign currency translation adjustments	—	—	—	—	—	—	—	(1,728)	(1,728)	—	(1,728)
Amortization of terminated hedge (net of income tax effect of $120)	—	—	—	—	—	—	—	(216)	(216)	—	(216)
Unrealized derivative gains on cash flow hedges (net of income tax effect of $2,283)	—	—	—	—	—	—	—	2,687	2,687	—	2,687
Minimum pension liability (net of income tax effect of $817)	—	—	—	—	—	—	—	1,360	1,360	—	1,360
Subtotal - comprehensive income	54,063	—	—	—	—	—	680,528	2,103	682,631	16,107	698,738
Balance, December 31, 2015	$ 242,509	$ 66	$ 910	$ 7	$ 0	$ (294,728)	$4,566,521	$ (23,129)	$ 4,249,647	$ 59,514	$4,309,161

The accompanying notes are an integral part of these consolidated financial statements.

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2015	2014	2013
	(Amounts in thousands)		
Cash Flows from Operating Activities:			
Net income	$ 750,698	$ 604,996	$ 554,023
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation & amortization	398,618	375,624	337,356
Gains on sales of assets and businesses, net of losses	(3,615)	(7,837)	(3,114)
Stock-based compensation expense	39,971	31,092	27,783
Costs related to extinguishment of debt	0	19,730	0
Changes in assets & liabilities, net of effects from acquisitions and dispositions:			
Accounts receivable	(45,814)	(105,708)	(49,708)
Accrued interest	(693)	4,400	(1,197)
Accrued and deferred income taxes	(34,394)	33,920	34,861
Other working capital accounts	(125,556)	73,912	26,234
Other assets and deferred charges	6,631	13,667	8,984
Other	23,295	2,449	23,485
Accrued insurance expense, net of commercial premiums paid	90,895	59,276	(3,821)
Payments made in settlement of self-insurance claims	(79,138)	(69,645)	(70,645)
Net cash provided by operating activities	1,020,898	1,035,876	884,241
Cash Flows from Investing Activities:			
Property and equipment additions, net of disposals	(379,321)	(391,150)	(358,493)
Acquisition of property and businesses	(533,655)	(431,386)	(12,636)
Proceeds received from sales of assets and businesses	3,391	15,178	37,482
Costs incurred for purchase and implementation of electronic health records application	0	(13,488)	(49,811)
Increase in insurance subsidiary investments	(3,300)	(12,000)	0
Net cash used in investing activities	(912,885)	(832,846)	(383,458)
Cash Flows from Financing Activities:			
Reduction of long-term debt	(68,166)	(879,129)	(440,224)
Additional borrowings	234,400	830,000	15,761
Financing costs	(515)	(14,976)	(231)
Repurchase of common shares	(209,782)	(100,749)	(27,201)
Dividends paid	(39,532)	(29,665)	(19,621)
Issuance of common stock	8,441	6,863	5,708
Excess income tax benefits related to stock based compensation	47,364	33,912	20,121
Profit distributions to noncontrolling interests	(62,220)	(33,680)	(61,329)
Proceeds received from sale/leaseback of real property	12,765	0	0
Net cash used in financing activities	(77,245)	(187,424)	(507,016)
Effect of exchange rate changes on cash and cash equivalents	(1,609)	(775)	0
Increase (decrease) in cash and cash equivalents	29,159	14,831	(6,233)
Cash and cash equivalents, beginning of period	32,069	17,238	23,471
Cash and cash equivalents, end of period	$ 61,228	$ 32,069	$ 17,238
Supplemental Disclosures of Cash Flow Information:			
Interest paid, including early redemption premium and original issue discount write-off in 2014	$ 107,054	$ 130,279	$ 131,259
Income taxes paid, net of refunds	$ 380,658	$ 258,612	$ 259,896
Noncash purchases of property and equipment	$ 49,086	$ 35,469	$ 36,212

The accompanying notes are an integral part of these consolidated financial statements.

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF INCOME
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2015
(amounts in thousands)

	Parent	Guarantors	Non Guarantors	Consolidating Adjustments	Total Consolidated Amounts
Net revenues before provision for doubtful accounts	$ 0	$ 6,798,664	$ 3,018,364	$ (32,304)	$ 9,784,724
Less: Provision for doubtful accounts	0	481,294	259,979	0	741,273
Net revenues	0	6,317,370	2,758,385	(32,304)	9,043,451
Operating charges:					
Salaries, wages and benefits	0	3,014,296	1,198,091	0	4,212,387
Other operating expenses	0	1,459,607	690,341	(30,143)	2,119,805
Supplies expense	0	583,644	390,444	0	974,088
Depreciation and amortization	0	280,985	117,633	0	398,618
Lease and rental expense	0	58,394	38,740	(2,161)	94,973
Electronic health records incentive income	0	(12,232)	(3,583)	0	(15,815)
	0	5,384,694	2,431,666	(32,304)	7,784,056
Income from operations	0	932,676	326,719	0	1,259,395
Interest expense	107,665	4,695	1,134	0	113,494
Interest (income) expense, affiliate	0	86,494	(86,494)	0	0
Equity in net income of consolidated affiliates	(746,984)	(215,119)	0	962,103	0
Income before income taxes	639,319	1,056,606	412,079	(962,103)	1,145,901
Provision for income taxes	(41,209)	354,611	81,801	0	395,203
Net income	680,528	701,995	330,278	(962,103)	750,698
Less: Income attributable to noncontrolling interests	0	0	70,170	0	70,170
Net income attributable to UHS	$ 680,528	$ 701,995	$ 260,108	$ (962,103)	$ 680,528

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF INCOME
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2014
(amounts in thousands)

	Parent	Guarantors	Non Guarantors	Consolidating Adjustments	Total Consolidated Amounts
Net revenues before provision for doubtful accounts	$ 0	$ 6,225,997	$ 2,707,294	$ (29,220)	$ 8,904,071
Less: Provision for doubtful accounts	0	471,181	227,802	0	698,983
Net revenues	0	5,754,816	2,479,492	(29,220)	8,205,088
Operating charges:					
Salaries, wages and benefits	0	2,757,738	1,087,723	0	3,845,461
Other operating expenses	0	1,342,745	607,098	(27,100)	1,922,743
Supplies expense	0	546,578	349,115	0	895,693
Depreciation and amortization	0	269,490	106,134	0	375,624
Lease and rental expense	0	58,619	37,494	(2,120)	93,993
Electronic health records incentive income	0	(19,480)	(8,422)	0	(27,902)
Costs related to extinguishment of debt	36,171	0	0	0	36,171
	36,171	4,955,690	2,179,142	(29,220)	7,141,783
Income from operations	(36,171)	799,126	300,350	0	1,063,305
Interest expense	127,528	4,516	1,594	0	133,638
Interest (income) expense, affiliate	0	88,246	(88,246)	0	0
Equity in net income of consolidated affiliates	(646,386)	(184,385)	0	830,771	0
Income before income taxes	482,687	890,749	387,002	(830,771)	929,667
Provision for income taxes	(62,656)	305,320	82,007	0	324,671
Net income	545,343	585,429	304,995	(830,771)	604,996
Less: Income attributable to noncontrolling interests	0	0	59,653	0	59,653
Net income attributable to UHS	$ 545,343	$ 585,429	$ 245,342	$ (830,771)	$ 545,343

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF INCOME
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2013
(amounts in thousands)

	Parent	Guarantors	Non Guarantors	Consolidating Adjustments	Total Consolidated Amounts
Net revenues before provision for doubtful accounts	$ 0	$ 5,734,385	$ 2,789,348	$ (28,644)	$ 8,495,089
Less: Provision for doubtful accounts	0	657,106	470,110	0	1,127,216
Net revenues	0	5,077,279	2,319,238	(28,644)	7,367,873
Operating charges:					
Salaries, wages and benefits	0	2,573,205	1,031,415	0	3,604,620
Other operating expenses	0	1,047,856	531,747	(26,808)	1,552,795
Supplies expense	0	510,078	311,011	0	821,089
Depreciation and amortization	0	236,958	100,214	0	337,172
Lease and rental expense	0	62,518	37,076	(1,836)	97,758
Electronic health records incentive income	0	(43,027)	(17,997)	0	(61,024)
	0	4,387,588	1,993,466	(28,644)	6,352,410
Income from operations	0	689,691	325,772	0	1,015,463
Interest expense	139,793	3,365	2,973	0	146,131
Interest (income) expense, affiliate	0	84,640	(84,640)	0	0
Equity in net income of consolidated affiliates	(597,020)	(141,004)	0	738,024	0
Income before income taxes	457,227	742,690	407,439	(738,024)	869,332
Provision for income taxes	(53,506)	262,346	106,469	0	315,309
Net income	510,733	480,344	300,970	(738,024)	554,023
Less: Income attributable to noncontrolling interests	0	0	43,290	0	43,290
Net income attributable to UHS	$ 510,733	$ 480,344	$ 257,680	$ (738,024)	$ 510,733

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2015
(amounts in thousands)

	Parent	Guarantors	Non Guarantors	Consolidating Adjustments	Total Consolidated Amounts
Net income	$ 680,528	$ 701,995	$ 330,278	$ (962,103)	$ 750,698
Other comprehensive income (loss):					
Unrealized derivative gains on cash flow hedges	4,970	0	0	0	4,970
Amortization of terminated hedge	(336)	0	0	0	(336)
Minimum pension liability	2,177	2,177	0	(2,177)	2,177
Foreign currency translation adjustment	(1,728)	(1,728)	0	1,728	(1,728)
Other comprehensive income before tax	5,083	449	0	(449)	5,083
Income tax expense related to items of other comprehensive income	2,980	817	0	(817)	2,980
Total other comprehensive income, net of tax	2,103	(368)	0	368	2,103
Comprehensive income	682,631	701,627	330,278	(961,735)	752,801
Less: Comprehensive income attributable to noncontrolling interests	0	0	70,170	0	70,170
Comprehensive income attributable to UHS	$ 682,631	$ 701,627	$ 260,108	$ (961,735)	$ 682,631

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2014
(amounts in thousands)

	Parent	Guarantors	Non Guarantors	Consolidating Adjustments	Total Consolidated Amounts
Net income	$ 545,343	$ 585,429	$ 304,995	$ (830,771)	$ 604,996
Other comprehensive income (loss):					
Unrealized derivative gains on cash flow hedges	17,668	0	0	0	17,668
Amortization of terminated hedge	(336)	0	0	0	(336)
Minimum pension liability	(14,270)	(14,270)	0	14,270	(14,270)
Foreign currency translation adjustment	(2,431)	(2,431)	0	2,431	(2,431)
Other comprehensive income before tax	631	(16,701)	0	16,701	631
Income tax expense related to items of other comprehensive income	1,053	(5,356)	0	5,356	1,053
Total other comprehensive income, net of tax	(422)	(11,345)	0	11,345	(422)
Comprehensive income	544,921	574,084	304,995	(819,426)	604,574
Less: Comprehensive income attributable to noncontrolling interests	0	0	59,653	0	59,653
Comprehensive income attributable to UHS	$ 544,921	$ 574,084	$ 245,342	$ (819,426)	$ 544,921

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2013
(amounts in thousands)

	Parent	Guarantors	Non Guarantors	Consolidating Adjustments	Total Consolidated Amounts
Net income	$ 510,733	$ 480,344	$ 300,970	$ (738,024)	$ 554,023
Other comprehensive income (loss):					
Unrealized derivative gains on cash flow hedges	16,963	0	0	0	16,963
Amortization of terminated hedge	(336)	0	0	0	(336)
Minimum pension liability	14,657	14,657	0	(14,657)	14,657
Other comprehensive income before tax	31,284	14,657	0	(14,657)	31,284
Income tax expense related to items of other comprehensive income	11,940	5,670	0	(5,670)	11,940
Total other comprehensive income, net of tax	19,344	8,987	0	(8,987)	19,344
Comprehensive income	530,077	489,331	300,970	(747,011)	573,367
Less: Comprehensive income attributable to noncontrolling interests	0	0	43,290	0	43,290
Comprehensive income attributable to UHS	$ 530,077	$ 489,331	$ 257,680	$ (747,011)	$ 530,077

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING BALANCE SHEET
AS OF DECEMBER 31, 2015
(amounts in thousands)

	Parent	Guarantors	Non Guarantors	Consolidating Adjustments	Total Consolidated Amounts
Assets					
Current assets:					
Cash and cash equivalents	$ 0	$ 47,192	$ 14,036	$ 0	$ 61,228
Accounts receivable, net	0	918,699	383,730	0	1,302,429
Supplies	0	72,499	43,538	0	116,037
Deferred income taxes	132,975	2,145	0	0	135,120
Other current assets	0	89,973	13,517	0	103,490
Total current assets	132,975	1,130,508	454,821	0	1,718,304
Investments in subsidiaries	7,760,156	1,876,415	0	(9,636,571)	0
Intercompany receivable	80,764	0	747,709	(828,473)	0
Intercompany note receivable	0	0	1,242,937	(1,242,937)	0
Property and equipment	0	4,722,050	1,808,519	0	6,530,569
Less: accumulated depreciation	0	(1,845,746)	(848,845)	0	(2,694,591)
	0	2,876,304	959,674	0	3,835,978
Other assets:					
Goodwill	0	3,070,061	526,053	0	3,596,114
Deferred charges	25,877	5,530	3,950	0	35,357
Other	14,251	394,998	39,111	0	448,360
	$ 8,014,023	$ 9,353,816	$ 3,974,255	$(11,707,981)	$ 9,634,113
Liabilities and Stockholders' Equity					
Current liabilities:					
Current maturities of long-term debt	$ 60,368	$ 1,223	$ 1,131	$ 0	$ 62,722
Accounts payable and accrued liabilities	19,996	744,137	269,564	0	1,033,697
Federal and state taxes	3,987	0	0	0	3,987
Total current liabilities	84,351	745,360	270,695	0	1,100,406
Intercompany payable	0	828,473	0	(828,473)	0
Intercompany note payable	0	1,242,937	0	(1,242,937)	0
Other noncurrent liabilities	1,982	206,287	70,565	0	278,834
Long-term debt	3,362,143	16,790	8,370	0	3,387,303
Deferred income taxes	315,900	0	0	0	315,900
Redeemable noncontrolling interests	0	0	242,509	0	242,509
Equity:					
UHS common stockholders' equity	4,249,647	6,313,969	3,322,602	(9,636,571)	4,249,647
Noncontrolling interest	0	0	59,514	0	59,514
Total equity	4,249,647	6,313,969	3,382,116	(9,636,571)	4,309,161
	$ 8,014,023	$ 9,353,816	$ 3,974,255	$(11,707,981)	$ 9,634,113

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING BALANCE SHEET
AS OF DECEMBER 31, 2014
(amounts in thousands)

	Parent	Guarantors	Non Guarantors	Consolidating Adjustments	Total Consolidated Amounts
Assets					
Current assets:					
Cash and cash equivalents	$ 0	$ 21,784	$ 10,285	$ 0	$ 32,069
Accounts receivable, net	0	933,971	348,764	0	1,282,735
Supplies	0	67,847	40,268	0	108,115
Deferred income taxes	113,822	743	0	0	114,565
Other current assets	0	62,431	15,223	0	77,654
Total current assets	113,822	1,086,776	414,540	0	1,615,138
Investments in subsidiaries	7,013,540	1,661,296	0	(8,674,836)	0
Intercompany receivable	103,808	0	408,682	(512,490)	0
Intercompany note receivable	0	0	1,222,637	(1,222,637)	0
Property and equipment	0	4,494,567	1,717,463	0	6,212,030
Less: accumulated depreciation	0	(1,686,192)	(846,149)	0	(2,532,341)
	0	2,808,375	871,314	0	3,679,689
Other assets:					
Goodwill	0	2,764,555	526,658	0	3,291,213
Deferred charges	32,379	5,402	2,538	0	40,319
Other	9,601	283,302	55,181	0	348,084
	$ 7,273,150	$ 8,609,706	$ 3,501,550	$(10,409,963)	$ 8,974,443
Liabilities and Stockholders' Equity					
Current liabilities:					
Current maturities of long-term debt	$ 44,874	$ 1,260	$ 22,185	$ 0	$ 68,319
Accounts payable and accrued liabilities	20,245	1,051,309	41,508	0	1,113,062
Federal and state taxes	1,446	0	0	0	1,446
Total current liabilities	66,565	1,052,569	63,693	0	1,182,827
Intercompany payable	0	512,490	0	(512,490)	0
Intercompany note payable	0	1,222,637	0	(1,222,637)	0
Other noncurrent liabilities	1,322	189,456	77,777	0	268,555
Long-term debt	3,187,103	20,212	2,900	0	3,210,215
Deferred income taxes	282,214	0	0	0	282,214
Redeemable noncontrolling interests	0	0	239,552	0	239,552
Equity:					
UHS common stockholders' equity	3,735,946	5,612,342	3,062,494	(8,674,836)	3,735,946
Noncontrolling interest	0	0	55,134	0	55,134
Total equity	3,735,946	5,612,342	3,117,628	(8,674,836)	3,791,080
	$ 7,273,150	$ 8,609,706	$ 3,501,550	$(10,409,963)	$ 8,974,443

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2015
(amounts in thousands)

	Parent	Guarantors	Non Guarantors	Consolidating Adjustments	Total Consolidated Amounts
Net cash (used in) provided by operating activities	$ (21,287)	$ 655,439	$ 386,746	$ 0	$ 1,020,898
Cash Flows from Investing Activities:					
Property and equipment additions, net of disposals	0	(209,355)	(169,966)	0	(379,321)
Acquisition of property and businesses		(513,382)	(20,273)		(533,655)
Proceeds received from sale of assets and businesses	0	647	2,744	0	3,391
Increase in insurance subsidiary investments	0	(3,300)	0	0	(3,300)
Net cash used in investing activities	0	(725,390)	(187,495)	0	(912,885)
Cash Flows from Financing Activities:					
Reduction of long-term debt	(42,133)	(3,459)	(22,574)	0	(68,166)
Additional borrowings	234,400	0	0	0	234,400
Financing costs	(515)	0	0	0	(515)
Repurchase of common shares	(209,782)	0	0	0	(209,782)
Dividends paid	(39,532)	0	0	0	(39,532)
Issuance of common stock	8,441	0	0	0	8,441
Excess income tax benefits related to stock-based compensation	47,364	0	0	0	47,364
Profit distributions to noncontrolling interests	0	0	(62,220)	0	(62,220)
Proceeds received from sale/leaseback of real property	0	0	12,765	0	12,765
Changes in intercompany balances with affiliates, net	23,044	100,427	(123,471)	0	0
Net cash provided by (used in) financing activities	21,287	96,968	(195,500)	0	(77,245)
Effect of exchange rate changes on cash and cash equivalents	0	(1,609)	0	0	(1,609)
Increase in cash and cash equivalents	0	25,408	3,751	0	29,159
Cash and cash equivalents, beginning of period	0	21,784	10,285	0	32,069
Cash and cash equivalents, end of period	$ 0	$ 47,192	$ 14,036	$ 0	$ 61,228

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2014
(amounts in thousands)

	Parent	Guarantors	Non Guarantors	Consolidating Adjustments	Total Consolidated Amounts
Net cash provided by operating activities	$ 18,579	$ 687,101	$ 330,196	$ 0	$ 1,035,876
Cash Flows from Investing Activities:					
Property and equipment additions, net of disposals	0	(230,102)	(161,048)	0	(391,150)
Acquisition of property and businesses	0	(422,081)	(9,305)	0	(431,386)
Proceeds received from sale of assets and businesses	0	11,450	3,728	0	15,178
Costs incurred for purchase and implementation of electronic health records application	0	(13,488)	0	0	(13,488)
Increase in insurance subsidiary investments	0	(12,000)	0	0	(12,000)
Net cash used in investing activities	0	(666,221)	(166,625)	0	(832,846)
Cash Flows from Financing Activities:					
Reduction of long-term debt	(866,748)	(867)	(11,514)	0	(879,129)
Additional borrowings	830,000	0	0	0	830,000
Financing costs	(14,976)	0	0	0	(14,976)
Repurchase of common shares	(100,749)	0	0	0	(100,749)
Dividends paid	(29,665)	0	0	0	(29,665)
Issuance of common stock	6,863	0	0	0	6,863
Excess income tax benefits related to stock-based compensation	33,912	0	0	0	33,912
Profit distributions to noncontrolling interests	0	0	(33,680)	0	(33,680)
Changes in intercompany balances with affiliates, net	122,784	(5,444)	(117,340)	0	0
Net cash used in financing activities	(18,579)	(6,311)	(162,534)	0	(187,424)
Effect of exchange rate changes on cash and cash equivalents	0	(775)	0	0	(775)
Increase in cash and cash equivalents	0	13,794	1,037	0	14,831
Cash and cash equivalents, beginning of period	0	7,990	9,248	0	17,238
Cash and cash equivalents, end of period	$ 0	$ 21,784	$ 10,285	$ 0	$ 32,069

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2015
(amounts in thousands)

	Parent	Guarantors	Non Guarantors	Consolidating Adjustments	Total Consolidated Amounts
Net cash provided by operating activities	$ 17,946	$ 587,083	$ 279,212	$ 0	$ 884,241
Cash Flows from Investing Activities:					
Property and equipment additions, net of disposals	0	(269,419)	(89,074)	0	(358,493)
Acquisition of property and businesses	0	(8,094)	(4,542)	0	(12,636)
Proceeds received from sale of assets and businesses	0	7,916	29,566	0	37,482
Costs incurred for purchase and implementation of electronic health records application	0	(49,811)	0	0	(49,811)
Net cash used in investing activities	0	(319,408)	(64,050)	0	(383,458)
Cash Flows from Financing Activities:					
Reduction of long-term debt	(429,996)	(109)	(10,119)	0	(440,224)
Additional borrowings	15,761	0	0	0	15,761
Financing costs	(231)	0	0	0	(231)
Repurchase of common shares	(27,201)	0	0	0	(27,201)
Dividends paid	(19,621)	0	0	0	(19,621)
Issuance of common stock	5,708	0	0	0	5,708
Excess income tax benefits related to stock-based compensation	20,121	0	0	0	20,121
Profit distributions to noncontrolling interests	0	0	(61,329)	0	(61,329)
Changes in intercompany balances with affiliates, net	417,513	(271,525)	(145,988)	0	0
Net cash used in financing activities	(17,946)	(271,634)	(217,436)	0	(507,016)
Decrease in cash and cash equivalents	0	(3,959)	(2,274)	0	(6,233)
Cash and cash equivalents, beginning of period	0	11,949	11,522	0	23,471
Cash and cash equivalents, end of period	$ 0	$ 7,990	$ 9,248	$ 0	$ 17,238

SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS

(amounts in thousands)

Allowance for Doubtful Accounts Receivable:	Balance at beginning of period	Charges to costs and expenses	Acquisitions of business	Write-off of uncollectible accounts	Balance at end of period
Year ended December 31, 2015	$ 324,648	$ 741,273	$ -	$ (667,124)	$ 398,797
Year ended December 31, 2014	$ 395,035	$ 698,983	$ 506	$ (769,876)	$ 324,648
Year ended December 31, 2013	$ 311,387	$ 1,127,216	$ -	$ (1,043,568)	$ 395,035

Valuation Allowance for Deferred Tax Assets:	Balance at beginning of period	Charges to costs and expenses	Acquisitions of business	Write-offs	Balance at end of period
Year ended December 31, 2015	$ 52,764	$ (197)	$ -	$ -	$ 52,567
Year ended December 31, 2014	$ 46,841	$ 5,923	$ -	$ -	$ 52,764
Year ended December 31, 2013	$ 44,511	$ 2,330	$ -	$ -	$ 46,841

Supplemental #2
-COPY-

Keystone Memphis, LLC
d/b/a Compass
Intervention Center

CN1606-025

TRAUGER & TUKE
ATTORNEYS AT LAW
THE SOUTHERN TURF BUILDING
222 FOURTH AVENUE NORTH
NASHVILLE, TENNESSEE 37219-2117
TELEPHONE (615) 256-8585
TELECOPIER (615) 256-7444

SUPPLEMENTAL #2
July 19, 2016
11:45 am

July 19, 2016

By hand delivery

Melanie M. Hill
Executive Director
Tennessee Health Services & Development Agency
Andrew Jackson Building, 9th Floor
502 Deaderick Street
Nashville, TN 37243

RE: Keystone Memphis, LLC, a limited liability company, d/b/a Compass Intervention Center Certificate of Need to establish a children's psychiatric hospital

Dear Ms. Hill:

This letter transmits the supplemental response and four copies to the referenced certificate of need application. Also enclosed is the affidavit. Please date stamp two copies and return them to me in the enclosed envelope.

The contact person for this application is Jeremy Pitzer, Chief Executive Officer, Compass Intervention Center. His office telephone number is (901) 758-2002.

As always, thank you for your courtesies.

Very truly yours,

Byron R. Trauger

Enclosures

cc: Jeremy Pitzer, Chief Executive Officer, Compass Intervention Center
Paul W. Ambrosius, Esq.

SUPPLEMENTAL #2
July 19, 2016
11:45 am

AFFIDAVIT

STATE OF TENNESSEE

COUNTY OF Shelby

NAME OF FACILITY: Compass Intervention Center

I, Jeremy Pitzer, after first being duly sworn, state under oath that I am the applicant named in this Certificate of Need application or the lawful agent thereof, that I have reviewed all of the supplemental information submitted herewith, and that it is true, accurate, and complete.

CEO
Signature/Title

Sworn to and subscribed before me, a Notary Public, this the 15th day of July, 2016, witness my hand at office in the County of Shelby, State of Tennessee.

Terri Sweet
NOTARY PUBLIC

My commission expires 10/5/19, _____.

HF-0043

Revised 7/02

TERRI SWEET
STATE OF TENNESSEE NOTARY PUBLIC
SHELBY COUNTY
MY COMMISSION EXPIRES 10-5-2019

SUPPLEMENTAL #2
July 19, 2016
11:45 am

1. **Section A, Applicant Profile Item 5**

   It is noted the management fee paid to UHS of Delaware, Inc. by Compass in 2015 was $330,480 and will be $439,560 in 2016. However, please clarify the reason the fee will not be applied to this proposed project and why it is not allocated in the Projected Data Chart. Please note any revised management fee allocation in the Projected Data Chart will impact other financial calculation responses in the application.

   The fee is unrelated to the project in that it is variable annually, and determined by the total allocation and number of facilities under management. Future allocations are not impacted by the proposed project; the fee allocated in future years will not change based upon the proposed project being approved or not.

2. **Section A, Applicant Profile Item 9**

   The first row in the bed complement data chart is incorrect. Please revise and submit.

   The first column of the Bed Complement Data Chart has been corrected. Please see the replacement on the following page.

3. **Section B. I. Project Description**

According to the 2014 Lakeside JAR the hospital staffs 25 psychiatric beds licensed as child and adolescent beds and 24 geriatric beds. The Joint Annual Report does not add up to 49 staffed child and adolescent beds. Please clarify if the Lakeside 2014 Joint Annual Report correctly listed the total of staffed child and adolescent beds.

Thank you for identifying this discrepancy. We read the number wrong in the JAR report, and the 24 beds were allocated to geriatric not pediatric. It has been verified that Lakeside is licensed for 55 child and adolescent inpatient beds, with an average occupancy of 92% on those beds in 2014, and the current capacity to staff all of those beds.

4. **Section B, Project Description, Item II.A**

The square footage and cost per square footage chart is noted. However, please verify calculations for the "Proposed Final Cost/SF" columns (3) and provide a "Total Proposed Final Cost/SF" amount rather than the current total dollar amount ($7,679,726) for the last column.

Please see the corrected square footage chart on the following page.

5. **Section C. (Economic Feasibility) Item 3**

The applicant notes the proposed construction costs ($272.58 SF) are consistent with the published Hospital Construction Costs for years 2013-2015. However, the $272.58 SF costs is not listed on the Square footage and cost per square footage chart. Please clarify. Also, in your response please indicate if the construction costs are "total" costs per square foot.

The square footage chart has been corrected (following page) and the $272.58 cost per sq. /ft. is listed in the appropriate box on the chart, and represents the "Total Proposed Final cost/SF."

SUPPLEMENTAL #2
July 19, 2016
11:45 am

6. **Section C, Economic Feasibility, Item 5**

Your response is noted. Please verify the following table identifying the project's gross charge, average deduction from operating revenue, and average net charge per patient day. Please divide the total patient days in Year One of the Projected Data Chart into the total gross charges, deductions from operating revenue total, and total net charges to calculate the charges. Please provide a replacement page 36.

	Year One	Year Two
Average Gross Charge (Gross charges/total days)	$2,027.00	$2,019.61
Average Deduction (Total Deductions/total days)	$1,505.11	$1,321.42
Average net Charge Total Net Operating Revenue/total days)	$521.88	$698.17

The data in the table above has been verified and is correct. The initial calculations that were submitted used only inpatient gross revenue, and the above corrected numbers utilize total gross revenue. Please also see following replacement page 36.

TRAUGER & TUKE
ATTORNEYS AT LAW
THE SOUTHERN TURF BUILDING
222 FOURTH AVENUE NORTH
NASHVILLE, TENNESSEE 37219-2117
TELEPHONE (615) 256-8585
TELECOPIER (615) 256-7444

June 10, 2016

By hand delivery

Melanie M. Hill
Executive Director
Tennessee Health Services & Development Agency
Andrew Jackson Building, 9th Floor
502 Deaderick Street
Nashville, TN 37243

RE: Keystone Memphis, LLC, a limited liability company, d/b/a Compass Intervention Center
Certificate of Need to establish a children's psychiatric hospital

Dear Ms. Hill:

Enclosed please find the original and four copies of the Letter of Intent for the referenced project on behalf of our client Keystone Memphis, LLC d/b/a Compass Intervention Center. Publication of Intent was published in this morning's *Commercial Appeal*, which is a newspaper of general circulation in Shelby County, Tennessee, and it is anticipated that the filing of the certificate of need application will occur within five days. Please date stamp two copies and return them to me.

The contact person for this application is Jeremy Pitzer, Chief Executive Officer, Compass Intervention Center. His office telephone number is 901-758-2002.

Very truly yours,

Paul W. Ambrosius

PWA:kmn

Enclosures

cc: Jeremy Pitzer, Chief Executive Officer, Compass Intervention Center
Byron R. Trauger, Esq., Trauger & Tuke

State of Tennessee
Health Services and Development Agency
Andrew Jackson Building, 9th Floor
502 Deaderick Street
Nashville, TN 37243
www.tn.gov/hsda Phone: 615-741-2364 Fax: 615-741-9884

LETTER OF INTENT

The Publication of Intent is to be published in the Commercial Appeal (Name of Newspaper) which is a newspaper of general circulation in Shelby (County), Tennessee, on or before June 10 (Month / day), 2016 (Year), for one day.

This is to provide official notice to the Health Services and Development Agency and all interested parties, in accordance with T.C.A. § 68-11-1601 *et seq.*, and the Rules of the Health Services and Development Agency, that:

Compass Intervention Center (Name of Applicant) Residential Treatment Facility (Facility Type-Existing)

owned by: Keystone Memphis, LLC with an ownership type of LLC

and to be managed by: UHS of Delaware, Inc. intends to file an application for a Certificate of Need for [PROJECT DESCRIPTION BEGINS HERE]: the establishment of a children's psychiatric hospital at our existing location of 7900 Lowrance Road, Memphis, TN 38125. The facility will seek additional licensure from the Department of Mental Health and Substance Abuse Services as a 48-bed Mental Health Hospital, offering inpatient psychiatric care for children and adolescents up to age 18. This project does not initiate or discontinue any other health services, and this project does not include any major medical equipment. The proposed cost for the project is $12,152,661.

The anticipated date of filing the application is: June 15, 2016

The contact person for this project is Jeremy Pitzer (Contact Name) CEO (Title)

who may be reached at: Compass Intervention Center (Company Name) 7900 Lowrance Road (Address)

Memphis (City) Tennessee (State) 38125 (Zip Code) 901 / 758-2002 (Area Code / Phone Number)

(Signature) 06/09/16 (Date) jeremy.pitzer@uhsinc.com (E-mail Address)

The Letter of Intent must be filed in triplicate and received between the first and the tenth day of the month. If the last day for filing is a Saturday, Sunday or State Holiday, filing must occur on the preceding business day. File this form at the following address:

Health Services and Development Agency
Andrew Jackson Building, 9th Floor
502 Deaderick Street
Nashville, Tennessee 37243

The published Letter of Intent must contain the following statement pursuant to T.C.A. § 68-11-1607(c)(1). (A) Any health care institution wishing to oppose a Certificate of Need application must file a written notice with the Health Services and Development Agency no later than fifteen (15) days before the regularly scheduled Health Services and Development Agency meeting at which the application is originally scheduled; and (B) Any other person wishing to oppose the application must file written objection with the Health Services and Development Agency at or prior to the consideration of the application by the Agency.

TRAUGER & TUKE
ATTORNEYS AT LAW
THE SOUTHERN TURF BUILDING
222 FOURTH AVENUE NORTH
NASHVILLE, TENNESSEE 37219-2117
TELEPHONE (615) 256-8585
TELECOPIER (615) 256-7444

October 11, 2016

VIA HAND DELIVERY

Ms. Melanie Hill
Executive Director
Tennessee Health Services
& Development Agency
Andrew Jackson Building, 9th Floor
502 Deaderick Street
Nashville, TN 37243

RE: Compass Intervention Center
Certificate of Need CN1606-025

Dear Ms. Hill:

Enclosed please find letters of support to be filed on behalf of my client, Keystone Memphis, LLC d/b/a Compass Intervention Center. Included in this filing are the original and three (3) copies of three (3) support letters as follows:

(1) Altha J. Stewart, MD, Associate Professor in Psychiatry, Director, Center For Health in Justice Involved Youth, University of Tennessee Health Science Center;

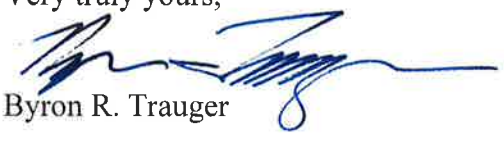
(2) Leslee Graves, Federal Programs Advisor, Neglected and Deliquent Programs, Shelby County Schools; and

(3) Jennifer Predmore, LAPSW, Vice President West TN Region, Camelot of West Tennessee.

I have also enclosed an extra copy to be date stamped and returned to me.

Thank you for your assistance.

Very truly yours,



Byron R. Trauger

BRT/kmn

Enclosures

cc: Jeremy Pitzer, Chief Executive Officer

THE UNIVERSITY OF
TENNESSEE
HEALTH SCIENCE CENTER

August 22, 2016

Melanie Hill, Executive Director
Tennessee Health Services and Development Agency
Andrew Jackson Building 9th Floor
502 Deaderick St
Nashville, TN 37243

Re: Letter of support for Compass Intervention Center Certificate of Need Application

Dear Ms. Hill:

I am pleased to write this letter of support for the CON application submitted by Compass Intervention Center. The children with behavioral health needs in Shelby County face overwhelming barriers to their overall health and emotional well-being, including higher amounts of violence and trauma exposure, higher rates of contact with the justice system, economic and educational deficits and a lack of appropriate treatment resources. Existing inpatient programs for children and adolescents are consistently full or not accepting patients, leaving us with a high level of need for the services that will be offered if the Compass Intervention Center application is approved.

As Tennessee's only public, statewide, academic health system, the mission of the University of Tennessee Health Science Center (UTHSC) is to bring the benefits of the health sciences to the achievement and maintenance of human health, with a focus on the citizens of Tennessee and the region, by pursuing an integrated program of education, research, clinical care, and public service. Compass Intervention Center has been a strong partner and collaborator with UTHSC in all these areas since the creation of our Center of Excellence for Health in Justice Involved Youth over a year ago. During this time, Compass Intervention Center has partnered with UTHSC on several grant applications to implement and evaluate trauma-informed prevention and intervention strategies and inform our work on community level interventions and policy level strategies. They have assisted our child serving community organization partners in education and outreach related to trauma informed supports for these social service providers. Compass Intervention Center participates in local workgroup and taskforce meetings regarding children's mental health, juvenile justice reform, trauma informed care, evaluation of selected prevention and intervention strategies, and recommendations for policy reforms. Through these collaborative relationships we have found the Compass Intervention Center executive and clinical staff to be professional, supportive, and committed to our shared goal of providing the best possible care to the children and families we serve. They are outcome driven, culturally competent, and focused on treating the patients and families as a whole. They are invested in our community, working with others in the area to eliminate the stigma of mental health by promoting awareness and offering education to the community. Their work in this community can best be described as demonstrating compassion for the children and families served and commitment to this community, while providing the highest quality care possible. They work with children that come from a variety of settings and offer them a diverse menu of

treatments. A significant part of our work with Compass Intervention Center has included identifying and treating children exposed to trauma and other adverse childhood experiences (ACEs). Their staff specialize in the area of children's trauma recovery and treatment of co-occurring mental health and substance abuse disorders. Their entire clinical team is trained in Trauma-Focused Cognitive Behavioral Therapy (TF-CBT), with many of the therapists pursuing or eligible for national certification.

Their plans to upgrade and expand their campus and the services they offer to build a comprehensive Children's Behavioral Health System will greatly benefit the children and families of Shelby County. They serve children with severe and chronic mental health needs, behavioral problems, and substance use disorders who are predominantly underserved, low-income, and have the greatest need across multiple domains. Compass Intervention Center often accepts challenging children that otherwise would have difficulty gaining access to services. They recognize that every child and family is unique, needs individualized, culturally competent care, and should be offered superior care no matter their circumstances. They live every day the mission of helping children and families make meaningful and lifelong changes in their lives.

They are one of the few area providers that consistently serve children in the juvenile justice system (children in both detention and community based settings) and the only children's mental health provider conducting mobile assessments in the community. These assessments are provided free onsite or telephonically at various locations, including the juvenile detention center, to ensure that every referral is managed in a timely, efficient manner from initial referral call to disposition. Even when their services are not 'a good fit' for a particular child's needs they assure a linkage is made to the appropriate services in the community to meet that child and family's needs. And they recently launched the HERO program, designed to screen and divert appropriate adolescents with minor offenses away from the juvenile justice system and into available treatment services.

The combination of innovative approaches to care and use of data driven, outcome focused, high quality and safe clinical programs is having a positive impact in the lives of the children with whom they work. They have the data to demonstrate improved patient satisfaction and outcome measures, and their restraint reduction initiatives have been identified as one of our local best practices.

On behalf of the children's behavioral health system in Shelby County I heartily support the Compass Intervention Service CON application and hope you will approve it so their services can extend to assist more children with behavioral health challenges and their families. Thank you.

Sincerely,

Altha J. Stewart, M.D.
Associate Professor in Psychiatry
Director, Center for Health in Justice Involved Youth
University of Tennessee Health Science Center

Leslee Graves
Neglected and Delinquent Programs
Federal Programs Advisor
Shelby County Schools
160 S. Hollywood St.
Memphis, TN 38112

September 21, 2016

To Whom It May Concern,

This letter is in reference to our continuing relationship with Compass Intervention Center in Memphis, TN. I have personally worked with the staff and students at Compass as we provide academic support services for this facility. I have witnessed first hand as students have exited the Compass program and entered their public school successfully. The staff at Compass Intervention has always exhibited the utmost professionalism as they worked to resolve the academic issues that are often present when students are away from their home schools. I believe that Compass Intervention is one of the most successful behavioral and treatment facilities in our area and would highly recommend the facility to families who are experiencing crisis with their school age children. This recommendation comes from the positive behavioral impact that I have observed in clients even after several years have passed. Compass Intervention remains committed to the overall wellbeing of their clients by providing medical services, therapeutic services, behavioral interventions, and educational interventions. As Compass Intervention endeavors to expand their programming I am in full support knowing that the expansion will greatly benefit our community as a whole but more importantly the individual clients they serve.

Sincerely,

Leslee Graves

Leslee Graves

CAMELOT
SERVING OUR COMMUNITY SINCE 1972

June 29, 2015

I am writing a letter of support for Compass Intervention Center's expansion. The level of need in our community is high. The children that they serve face an overwhelming amount of barriers to health including higher amounts of violence and trauma exposure, higher numbers of contact with the justice system, economic and educational deficits and a lack of appropriate treatment resources. Existing inpatient programs for children and adolescents are consistently full, and/or not accepting patients.

They have the ability to work with even the toughest kids. They believe all children should be offered superior care no matter their circumstances. At Compass Intervention Center, they often accept challenging children that have difficulty gaining access to services. They recognize that every child and family is unique and that we have to offer individualized, culturally competent care. Their satisfaction comes from helping children and families make meaningful and lifelong changes in their lives.

West Tennessee has a great deal of need for more resources and could benefit greatly from the expansion of Compass. Please do not hesitate to contact me with any further questions.

Sincerely,

Jennifer Predmore, LAPSW

Vice President West TN Region

901-230-1116

JPredmore@camelotcare.com

www.thecamelotdifference.com

CAMELOT of WEST TENNESSEE
1910 Nonconnah Blvd
SUITE 100
MEMPHIS, TN 38132
TEL 901.346.1270
FAX 901.346.1271
www.thecamelotdifference.com

Juvenile Court of Memphis and Shelby County

616 ADAMS AVENUE • MEMPHIS, TENNESSEE 38105

DAN H. MICHAEL
JUDGE

October 26, 2016

Melanie Hill, Executive director
Tennessee Health Services and Development Agency
502 Deaderick Street
Andrew Jackson Bldg., 9th Floor
Nashville, TN 37243

Re: Compass Intervention Center

Dear Ms. Hill:

On behalf of the Juvenile Court of Memphis and Shelby County, I want to express the support of the court for Compass Intervention Center's Certificate of Need application.

There is a great need in our community and region for additional capacity for child and adolescent mental health services. The majority of psychiatric beds in the region are dedicated to treating adult patients, and as a result accessing child and adolescent services is increasingly difficult. The children in our community experience disproportionate social and economic barriers and have high rates of exposure to trauma. Too many of them have mental health needs that go unmet, and Compass is willing to step into the gap.

Compass utilizes evidenced-based treatment, including Trauma-Focused Cognitive Behavioral Therapy (TF-CBT) in working with victims of trauma. TF-CBT is one of the most researched and validated models for addressing childhood trauma. Compass has also shown a willingness to work with the court and community in providing screening and assessment capacity, and as a treatment provider. As a partner in the recently announced PCAT grant, which is part of the Governor's statewide initiative to reduce ACEs (Adverse Childhood Experiences), Compass will continue to provide screening and assessment services and other resources to the children that need it most in the school system and court.

Again we offer our full support for Compass in this endeavor. Please do not hesitate to contact me should you have any questions or need more information.

Sincerely,

Dan H. Michael, Judge

City of Bartlett

A. Keith McDonald, Mayor

November 10, 2016

Melanie Hill, Executive director
Tennessee Health Services and Development Agency
502 Deaderick Street
Andrew Jackson Bldg., 9th Floor
Nashville, TN 37243

Re: Compass Intervention Center

Dear Ms. Hill:

I would like to express my strong support for Compass Intervention Center's Certificate of Need application for renovations, support space expansion and the addition of 48 new beds for their facility. Aside from the enormous impact this will make on the lives of many children who are in dire need of the treatment they will receive, it will bring 70 good-paying jobs to the area. This facility will positively impact the Bartlett population as well as the rest of the metropolitan area.

The City of Bartlett is a suburb of the City of Memphis and the 10th largest city in Tennessee. We take the welfare of all of our citizens very seriously and feel that numerous children and their families will benefit from this expansion. Compass Intervention Center is a sister unit to Lakeside Behavior Health System in Bartlett. There is a great need in our community and region for additional capacity for child and adolescent mental health services. The vast majority of psychiatric beds in the region are dedicated to treating adult patients, and as a result accessing child and adolescent services is increasingly difficult. Compass Intervention Center will be the only Behavioral Health System in the region dedicated exclusively to treating children in need.

Again we offer our full support for Compass in this endeavor. Please do not hesitate to contact me should you have any questions or need more information.

Sincerely,

A. Keith McDonald

Mayor, City of Bartlett

AKM/lh

TRAUGER & TUKE
ATTORNEYS AT LAW
THE SOUTHERN TURF BUILDING
222 FOURTH AVENUE NORTH
NASHVILLE, TENNESSEE 37219-2117
TELEPHONE (615) 256-8585
TELECOPIER (615) 256-7444

November 29, 2016

VIA HAND DELIVERY

Ms. Melanie Hill
Executive Director
Tennessee Health Services
& Development Agency
Andrew Jackson Building, 9th Floor
502 Deaderick Street
Nashville, TN 37243

RE: Compass Intervention Center
Certificate of Need CN1606-025

Dear Ms. Hill:

Attached please find letters of support to be filed on behalf of my client, Keystone Memphis, LLC d/b/a Compass Intervention Center. Included in this filing are the original and three (3) copies of twenty-five (25) support letters listed below:

1. Eric D. Blakney, MD
   Premier Internal Medicine
2. JoAnn Buckley
   Memphis, Tennessee
3. Paula Clay, MSW, LMSW
4. Pamela A. Cogdal, PHD, LCP-HSP, ACS
   Director of Counseling Programs
   The University of Memphis
5. Lori Dollinger
   Juvenile Probation Officer
   Lonoke County Juvenile Department
6. Eric D. Flute
   Crawford County Juvenile Office
7. Edmond H. Ford, Jr.
   Councilman, District 6
   City of Memphis
8. Janis Fullilove
   Councilwoman District 8, Position 2
   City of Memphis
9. Shaun Golden
   Memphis, Tennessee

10. Dr. L. LaSimba M. Gray, Jr.
    Senior Pastor
    New Sardis Baptist Church
11. Paul Hall
    Thirteenth Judicial District Calhoun, Cleveland & Dallas Counties
12. E. Florence Hervery
    Chief Executive Officer
    Case Management, Inc.
13. William M. Locke
    Warren County Juvenile Judge
    General Sessions, Juvenile, and Domestic Relations Courts of Warren County
14. Tracy Matthews
    Deputy Director
    Correctional Alternatives, Inc.
15. Lacy McCain
    Crawford County Juvenile Office
16. A. Keith McDonald
    Mayor
    City of Bartlett
17. Judge Dan H. Michael
    Juvenile Court of Memphis and Shelby County
18. Dana P. Patterson
    Director of Asset Management
    Alco Management, Inc.
19. Wayne Smith
    Owner/Operator
    Atrium Pharmacy
20. Philip H. Trenary
    President & CEO
    Greater Memphis Chamber
21. Johnnie R. Turner
    State Representative, District 85
    TN House of Representatives
22. A.C. Wharton, Jr.
    Former Mayor
    City of Memphis
23. Walter Williams
    Executive Director
    First Step Recovery Centers
24. Priscilla Williams
    Candidate for M.A. Clinical Mental Health Counseling
    Regent University

25. Celeste E. Wilson
    County/Youth Court Judge
    Office of the County Court Judge, DeSoto County, MS

    I have also enclosed an extra copy to be date stamped and returned to me.

    Thank you for your assistance.

Very truly yours,

Byron R. Trauger

BRT/kmn

Enclosures

cc: Kim Looney, Esq., Waller
    Dan Elrod, Esq., Butler Snow

November 5, 2016

Having worked with children with mental health issues for over 20 years, I definitely see the need for a new residential treatment center. So many children with such issues are not receiving services due to the lack of appropriate programs in our area. As a result many of these children are misdiagnosed as being delinquents and end up at juvenile detention centers or even jail. The earlier such issues are correctly diagnosed the better it will be for the child, the family, and the community.

Yes, I definitely see the need for a Residential Treatment Center for psychiatric disorders of children and adolescents.

Go Compass!

JoAnn Buckley

November 21, 2016
Melanie Hill, Executive director
Tennessee Health Services and Development Agency
502 Deaderick Street
Andrew Jackson Bldg., 9th Floor
Nashville, TN 37243

Re: Compass Intervention Center

Dear Ms. Hill:

I am writing to express my support for Compass Intervention Center's Certificate of Need application.

There is a great need in our community for additional capacity for child and adolescent mental health services. Children and youth in our communities are experiencing more trauma, grief/loss, exposure to drugs/gangs, and becoming more suicidal/homicidal. There seems to be a higher need for care but less resources to get these children and youth the adequate help they deserve.

Compass is a provider that works with the children in our community with the most need, and has demonstrated innovation by partnering with local courts and agencies to in providing services designed to mitigate the effects of trauma and decrease unnecessary contact with law enforcement. As a partner in the recently announced PCAT grant, which is part of the Governor's statewide initiative to reduce ACEs (Adverse Childhood Experiences), Compass will continue to provide screening and assessment services and other resources to the children that need it most in the school system and court.

Again, I offer my full support for Compass in this endeavor. Please do not hesitate to contact me should you have any questions or need more information.

Sincerely,

THE UNIVERSITY OF MEMPHIS

Counseling Educational Psychology & Research

100 Ball Hall
Memphis, Tennessee 38152

Office: 901.678.2841
Fax: 901.678.5114

www.memphis.edu

Melanie Hill, Executive Director

Tennessee Health Services and Development Agency

Andrew Jackson Building 9th Floor

502 Deaderick St

Nashville, TN 37243

November 14th, 2016

Dear Melanie,

I am writing to express my strong recommendation that Compass Intervention Center be allowed to expand their physical building capacity as well as the services they offer so that they may provide a full continuum of care through their proposed comprehensive Children's Behavioral Health System. Currently I am the director of masters and doctoral counseling programs at the University of Memphis as well as the coordinator for clinical internships and I have had the great privilege of working with the Compass clinical staff and their programs through the placement of student interns for training in counseling.

I have been amazed at the outstanding experiences that our students have been allowed to take part in through their clinical work with Compass. Many of our students desire to work specifically with children and families and very few sites locally provide such unique services.

The child clientele at Compass often present with severe and chronic mental health, behavioral problems, and substance use disorders. These children are predominantly from underserved, low-income families and offer great diversity in terms of family background and clinical trauma issues. Today's student counselors definitely need more experience in working to provide culturally competent services and their work at Compass more than provides these opportunities. Students have completed internships at Compass with the knowledge and skills that will serve them well as they go on to work with demanding clinical issues in the Memphis as well as Delta Regions of the Mid-South.

In addition numerous professionals at Compass are trained in Trauma-Focused Cognitive Behavioral Therapy (TF-CBT) and offer outstanding clinical supervision for our students as well as an exposure to a sound theoretical approach, one which is founded on hard data. As a result, the Compass trauma programs have seen evidence of the positive impact they have had in the lives of their clientele. Compass data demonstrates that they have designed programs that improve safety, increase positive clinical outcomes, and offer an invaluable service to their patients. What an amazing training experience for our students in counseling programs!

I would highly recommend that Compass go forward in growing these much needed services. If they are able to do so – it would make the Compass Intervention Center the only comprehensive Children's Behavioral Health System in Memphis, TN as well as the Mid-South region. This is truly a much needed effort – one that improves the future of these surrounding geographic areas through healthy child development and the fostering of resilient families – as well as the development of sound clinical providers of mental health services. I support Compass' effort 100% and if there is any further documentation that I can offer, please do not hesitate to contact me.

Sincerely,

Pamela A. Cogdal, PhD, LCP-HSP, ACS

Director of Counseling Programs

Department of Counseling Educational Psychology & Research

The University of Memphis

Ball Hall 100

Memphis, TN

38152

901-678-4931

LONOKE COUNTY JUVENILE DEPARTMENT

311 Court Street Lonoke, Arkansas, 72086 • (501) 676-3035 • Fax (501) 676-3004

Juvenile Intake Officers

APRIL GILL
ERIN SWAIN

Juvenile Probation Officers

LORI DOLLINGER
ADAM ELLIS
VICK GOODEN

November 8, 2016

Melanie Hill, Executive Director
Tennessee Health Services and Development Agency
502 Deaderick St.
Andrew Jackson Bldg., 9th floor
Nashville, TN 37243

RE: Compass Intervention Center

Dear Ms. Hill,

I would like to express strong support for Compass Intervention Center's Certificate of Need application. Compass has years of experience providing quality mental health services to juveniles who are in crisis. As a professional working with at risk youth and their families, I have had many positive experiences in partnership with Compass staff to assist these families. The feedback that I have received from these families has been positive, and I pass this information along to future families. There is no more powerful endorsement than that of a parent who has been in a similar situation who is willing to advise others. It is also advantageous that Compass focuses on treating children and youth, which requires a different approach and specific skill set due to the unique developmental needs of this population.

It can be such a challenge to find the right kind of care for the juveniles that we all serve. These juveniles are struggling with complex mental health issues which include a combination of mental health, substance abuse and trauma related issues. Research shows us that a majority of youth within correctional facilities suffer from one or more mental health issues, with 20% meeting diagnostic criteria for a serious mental health disorder. With regard to trauma, up to 32% of boys and 55% of girls who are incarcerated meet criteria for PTSD, as compared with 12% of the general population. Furthermore, there is a movement within the juvenile justice system nationwide to keep juveniles out of these correctional facilities. Research shows that these correctional facilities do not have a significant impact on the occurrence of juvenile crime nationwide. Therefore, we are charged with finding ways to meet the needs of these juveniles and treat the underlying mental health conditions along with the symptomatic behaviors. This is not possible without access to a myriad of services, both inpatient and outpatient. In eastern Arkansas, there is limited access to acute treatment without traveling a long distance. As you may know, this area of the state is among the poorest in the country, with parents often lacking transportation or access to transportation. This makes parental involvement in treatment, which is so critical to recovery, difficult to achieve. Furthermore, Compass would be in a unique situation to provide a continuum of care which can serve children and families at several levels of need: Inpatient Acute, Inpatient Long Term, Partial Hospitalization, and Intensive Outpatient to help meet needs that struggling families have. This Continuum of Care model is so advantageous to families, as they can move between services based on their immediate needs without being forced to adjust to a new system or therapeutic approach.

I enthusiastically support Compass in this endeavor. Please contact me if you have any questions, or if I can be of further assistance.

Thank you,

Lori Dollinger
Juvenile Probation Officer

City of Memphis
TENNESSEE

EDMUND H. FORD, JR.
Councilman - District 6

CITY COUNCIL

November 3, 2016

Melanie Hill, Executive Director
Tennessee Health Services and Development Agency
502 Deaderick Street
Andrew Jackson Bldg., 9th Floor
Nashville, TN 37243

Re: Compass Intervention Center

Dear Ms. Hill:

I am writing to express my support for Compass Intervention Center's Certificate of Need application. There is a great need in our community for additional capacity for child and adolescent mental health services. The children in our community experience disproportionate social and economic barriers and have high rates of exposure to trauma.

Compass is a provider that works with the children in our community with the most need, and has demonstrated innovation by partnering with local courts and agencies in providing services designed to mitigate the effects of trauma and decrease unnecessary contact with law enforcement. As a partner in the recently announced PCAT grant, which is part of the Governor's statewide initiative to reduce ACEs (Adverse Childhood Experiences), Compass will continue to provide screening and assessment services and other resources to the children that need it most in the school system and court.

Again I offer my full support for Compass in this endeavor. Please do not hesitate to contact me should you have any questions or need more information.

Sincerely,

Edmund H. Ford, Jr.

Edmund H. Ford, Jr., Ed.D.

CRAWFORD COUNTY JUVENILE OFFICE

21st Judicial District
220 South 4th Street, Suite A
Van Buren, Arkansas 72956-5713

Eric R. Flute
Chief Probation Officer
Eflute@crawford-county.org

Office Phone: (479)474- 5049
Mike Medlock Circuit Judge

Erin A. Mata
Supervisor/Intake Officer
Office Fax: (479) 471-3241

Melanie Hill, Executive director
Tennessee Health Services and Development Agency
502 Deaderick Street
Andrew Jackson Bldg., 9th Floor
Nashville, TN 37243

Re: Compass Intervention Center

Dear Ms. Hill:

RE: Compass Intervention Center

Dear Ms. Hill,

On behalf of Crawford Co Juvenile Court, we would like to express strong support for Compass Intervention Center's Certificate of Need application.

Across the state of Arkansas there is limited access to acute treatment for children and adolescents. There is a great need in our community, region and state for additional capacity for child and adolescent mental health services. These services would be beneficial for our clients in this area and would make the transition from acute into RTC (if applicable) easier, not only for the patient but the patient's family.

Compass utilizes evidenced-based treatment, including Trauma-Focused Cognitive Behavioral Therapy (TF-CBT) in working with victims of trauma. TF-CBT is one of the most researched and validated models for addressing childhood trauma. Compass has also shown a willingness to work with the court and community in providing screening and assessment capacity, and as a treatment provider.

We offer our support for Compass in this endeavor. Please do not hesitate to contact me should you have any questions or need more information.

Sincerely,

Lacy McCain

City of Memphis
TENNESSEE

JANIS FULLILOVE
Councilwoman - District 8, Position 2

CITY COUNCIL

November 3, 2016

Melanie Hill, Executive Director
Tennessee Health Services and Development Agency
502 Deaderick Street
Andrew Jackson Bldg., 9th Floor
Nashville, TN 37243

Re: Compass Intervention Center

Dear Ms. Hill:

It is my privilege to write this letter of support for Compass Intervention Center's Certificate of Need application for their facility expansion project. This project brings needed services to Memphis as there are no other all-child psychiatric facilities in the state or region. The children with tougher cases are not turned away at Compass.

Compass has partnered with Department of Community Services and the Shelby County Juvenile Court to provide needed services and decrease law enforcement contact. Through the HERO program, Compass screens and diverts appropriate adolescents with minor offenses away from the juvenile justice system and into available treatment services. As a partner in the recently announced PCAT grant, which is part of the Governor's statewide initiative to reduce ACEs (Adverse Childhood Experiences), Compass will continue to provide screening and assessment services and other resources to the children that need it most in the school system and court.

Upon completion of this expansion project, Compass Intervention Center will be the only Behavioral Health System in the region dedicated exclusively to treating children. Thank you for your time and consideration.

Sincerely,

Janis Fullilove

Janis Fullilove

Suite 514 • 125 North Main Street • Memphis, Tennessee 38103-2086 • (901) 576-6786

November 03, 2016

Melanie Hill, Executive Director
Tennessee Health Services and Development Agency
502 Deaderick Street
Andrew Jackson Bldg., 9th Floor
Nashville, TN 37243

RE: Compass Intervention Center

Dear Ms. Hill:

On behalf of my community, I want to express our strong support for Compass Intervention Certificate of Need Application.

I am a concerned citizen actively involved in the community. I have a high interest with the well being of children and I understand that there is a great need for services to benefit mental health, behavioral problems, and substance use disorders. I understand that most facilities that normally offer these types of services are for adults. That's why Compass Intervention is so needed. Compass has also shown a commitment to improving treatment outcomes. By growing the facility, the reach will be even greater than in the past.

Suicide rates are high. Substance abuse starts at early ages. Finding services to help treat these types of issues is difficult. Compass is dedicated to improving these types of problems with value driven services. Compass Intervention works with children in need but specializes in children's trauma recovery and treatment of co-occurring mental health and substance abuse disorders.

Compass will also add value to the economy by increasing the number of jobs in the community. This will increase moral in the community and build excitement as employees build value in their lives with new jobs.

I support the growth of Compass Intervention with increasing their facility size. I think the expansion of the building will increase the positive impact to the company. It will help our community. Most of all it will enable Compass to help more children. It will enhance more lives and families as a place where children can go and get the help and treatment that they need.

Shaun Golden
1425 Dexter Lake Drive
Cordova, TN 38016
901-210-5250
shaung2002@aol.com

NS | New Sardis Baptist Church

Organized in 1874

Dr. L. LaSimba M. Gray, Jr.
Senior Minister

7739 E. Holmes Rd.
Memphis, TN 38125
(901) 754-3979 Phone
(901) 759-1911 Fax

November 4, 2016

Melanie Hill, Executive Director
Tennessee Health Services and Development Agency
502 Deaderick Street
Andrew Jackson Bldg., 9th Floor
Nashville, TN 37243

Re: Compass Intervention Center

Dear Ms. Hill:

I am writing to express my support and the support of New Sardis Baptist Church for Compass Intervention Center's Certificate of Need application.

The children of Memphis and Shelby County have vast needs for mental health services including inpatient beds. The amount of Adverse Childhood Experiences faced by the children and families in our community is staggering. Compass is committed to providing not just trauma-informed care, but evidenced-based interventions proven to alleviate the symptoms of trauma. They consistently demonstrate the willingness and ability to work with underserved families, as well as coordinate care with other organizations and the faith-based community.

Again, I offer my full support for Compass in this endeavor. Please do not hesitate to contact me should you have any questions or need more information.

Sincerely,

L. LaSimba M. Gray, Jr.

Dr. L. LaSimba M. Gray, Jr.
Sr. Pastor

JUDGE CAROL ANTHONY **JUDGE LARRY CHANDLER**
CIRCUIT JUDGES
THIRTEENTH JUDICIAL DISTRICT
JUVENILE DIVISION
CALHOUN, CLEVELAND & DALLAS COUNTIES

CHARLES HEARNE
INTAKE OFFICER

BECKY CATHEY
PROBATION OFFICER

DALLAS COUNTY COURTHOUSE
FORDYCE, ARKANSAS 71742
(870) 352-3813

Melanie Hill, Executive Director
Tennessee Health Services and Development Agency
502 Deaderick St.
Andrew Jackson Bldg., 9th floor
Nashville, TN 37243
RE: Compass Intervention Center

Dear Ms. Hill,

On behalf of Dallas, Calhoun & Cleveland Co Juvenile Court, I would like to express strong support for Compass Intervention Center's Certificate of Need application.

Across the state of Arkansas there is limited access to acute treatment for children and adolescents. There is a great need in our community, region and state for additional capacity for child and adolescent mental health services. The children in our community experience disproportionate social and economic barriers and have high rates of exposure to trauma, poor social economics and illegal substances with limited support systems. Too many of them have mental health needs that go unmet, and Compass is willing to help bridge this gap.

Compass utilizes evidenced-based treatment, including Trauma-Focused Cognitive Behavioral Therapy (TF-CBT) in working with victims of trauma. TF-CBT is one of the most researched and validated models for addressing childhood trauma. Compass has also shown a willingness to work with the court and community in providing screening and assessment capacity, and as a treatment provider.

I offer my support for Compass in this endeavor. Please do not hesitate to contact me should you have any questions or need more information.

Sincerely,

Case Management, Inc.
3171 Directors Row Memphis, TN 38131 (901) 821-5600

November 16, 2016

Melanie Hill, Executive Director
Tennessee Health Services and Development Agency
502 Deaderick Street
Andrew Jackson Bldg., 9th Floor
Nashville, TN 37243

Dear Ms. Hill:

We are pleased to offer our support to Compass Intervention Center in regards to their application for a Certificate of Need.

Case Management, Inc. (CMI) has provided comprehensive mental health services to children and adults in Memphis and Shelby County for more than 25 years. Case Management, Inc. has a fully integrated outpatient service continuum that includes therapy, medication management, housing services, victim assistance, case management and care coordination services, substance abuse treatment and primary care services. We provide services to primarily TennCare recipients and those that are uninsured. This population is predominantly underserved, low income, high risk for becoming homeless, food insecure and has the greatest need for services from organizations like CMI and Compass Intervention Center. Our organization depends on Compass as a valuable community resource.

Shelby County has a great need for expansion of services for children and adolescents who require intensive intervention through an inpatient stay. Although, adult inpatient beds have decreased in Shelby County, there is great capacity for child and adolescent mental health services. Compass already has demonstrated their ability to provide excellent services to this population and I look forward to them expanding their system of care.

Case Management, Inc. fully supports their application for Certificate of Need. If I can assist further in this matter, please call me directly at (901) 821-5835.

Sincerely,

E. Florence Hervery

E. Florence Hervery, MSW
Chief Executive Officer

A Private Not-for -Profit Corporation
Partial Funding provided by the Tennessee Department for Mental Health and Substance Abuse Services
City of Memphis and Department of Human Services

William M. Locke

Judge
General Sessions, Juvenile, and
Domestic Relations Courts of Warren County
P. O. Box 7142 • McMinnville, TN 37111
PHONE (931) 473-8351 • FAX (931) 473-0614

BARRY DISHMAN
Director of Youth Services

SHAYE ASHFORD
Youth Services Officer
(931) 473-6043

MICKEY CRAIGHEAD
Administrative Assistant

HEATHER LUTTRELL
Youth Services Officer
Kids of the Community Liaison

October 25, 2016

Melanie Hill, Executive director
Tennessee Health Services and Development Agency
502 Deaderick Street
Andrew Jackson Bldg., 9th Floor
Nashville, TN 37243

Re: Compass Intervention Center

Dear Ms. Hill:

On behalf of Warren County Juvenile Court I want to express our strong support for Compass Intervention Center's Certificate of Need application.

Warren County Juvenile Court deals with a huge number of youth during any given calendar year. Our county is rural therefore we are service poor. We are open to any and all providers throughout the state that can assist us in helping our youth. We have had children in this county sit in the hospital for numerous days awaiting beds that do not seem to be available to Juvenile's.

There is a great need in our community and region for additional capacity for child and adolescent mental health services. The vast majority of psychiatric beds in the region are dedicated to treating adult patients, and as a result accessing child and adolescent services is increasingly difficult.

We have sent a number of youth to the Compass Intervention Center over the past couple of years and have had great success with those children. Compass works well with our agency with communication on the youth that we have had at the facility and always work very diligently to get our youth in the program as fast as possible.

Again we offer our full support for Compass in this endeavor. Please do not hesitate to contact me should you have any questions or need more information.

Sincerely,

William Locke

William M. Locke

Warren County Juvenile Judge

Correctional Alternatives, Inc.

COMMUNITY CORRECTIONS

3100 WALNUT GROVE RD.
SUITE 501
MEMPHIS, TN 38111-3598

901-452-7449
FAX 901-452-7455

November 21, 2016

Melanie Hill, Executive Director
Tennessee Health Services and Development Agency
502 Deadrick Street
Andrew Jackson Bldg., 9th Floor
Nashville, TN 37243

Re: Compass Intervention Center

Dear Ms. Hill:

On behalf of Correctional Alternatives, Inc., I want to express our strong support for Compass Intervention Center's Certificate of Need Application.

Correctional Alternatives Community Corrections program supervises adult felony offenders sentenced from the 10 Criminal Courts of the 30th Judicial District in Shelby County. We also receive transfer cases from all parts of the State. Correctional Alternatives, Inc. utilizes a Proactive Community Supervision technique along with evidence-based practices in its supervision and treatment programs to target the substance abuse, mental health and criminogenic needs of the clients. The treatment component consists of a unique combination of Behavior Modification and Cognitive Therapy techniques. This combined model targets both substance abuse and criminal thinking distortions.

There is a great need in our community and region for additional capacity for child and adolescent mental health services. The vast majority of psychiatric beds in the region are dedicated to treating adult patients, and as a result accessing child and adolescent services is increasingly difficult. Children and families in Memphis Shelby County experience violence and traumatic experience at higher rates than their peers in other parts of the State and country. Coupled with the social and economic barriers prevalent in the community, our children have behavioral health needs that are unmet. As a community we are in desperate need of additional services from partners that are committed to working the people that we serve.

Compass is a co-partner in the PCAT grant program, which among other things is designed to bring screening services to children where they are, and ensure families are linked with the most effective treatment options including community and faith-based services. This proposal will allow compass to provide their evidenced models for treat trauma to the children that need it most.

Again we offer our full support for Compass in this endeavor. Please do not hesitate to contact me should you have any questions or need more information.

Sincerely,

Traci Matthews
Deputy Director

City of Bartlett

A. Keith McDonald, Mayor

November 10, 2016

Melanie Hill, Executive director
Tennessee Health Services and Development Agency
502 Deaderick Street
Andrew Jackson Bldg., 9th Floor
Nashville, TN 37243

Re: Compass Intervention Center

Dear Ms. Hill:

I would like to express my strong support for Compass Intervention Center's Certificate of Need application for renovations, support space expansion and the addition of 48 new beds for their facility. Aside from the enormous impact this will make on the lives of many children who are in dire need of the treatment they will receive, it will bring 70 good-paying jobs to the area. This facility will positively impact the Bartlett population as well as the rest of the metropolitan area.

The City of Bartlett is a suburb of the City of Memphis and the 10th largest city in Tennessee. We take the welfare of all of our citizens very seriously and feel that numerous children and their families will benefit from this expansion. Compass Intervention Center is a sister unit to Lakeside Behavior Health System in Bartlett. There is a great need in our community and region for additional capacity for child and adolescent mental health services. The vast majority of psychiatric beds in the region are dedicated to treating adult patients, and as a result accessing child and adolescent services is increasingly difficult. Compass Intervention Center will be the only Behavioral Health System in the region dedicated exclusively to treating children in need.

Again we offer our full support for Compass in this endeavor. Please do not hesitate to contact me should you have any questions or need more information.

Sincerely,

A. Keith McDonald

Mayor, City of Bartlett

AKM/lh

Juvenile Court of Memphis and Shelby County

616 ADAMS AVENUE • MEMPHIS, TENNESSEE 38105

DAN H. MICHAEL
JUDGE

October 26, 2016

Melanie Hill, Executive director
Tennessee Health Services and Development Agency
502 Deaderick Street
Andrew Jackson Bldg., 9th Floor
Nashville, TN 37243

Re: Compass Intervention Center

Dear Ms. Hill:

On behalf of the Juvenile Court of Memphis and Shelby County, I want to express the support of the court for Compass Intervention Center's Certificate of Need application.

There is a great need in our community and region for additional capacity for child and adolescent mental health services. The majority of psychiatric beds in the region are dedicated to treating adult patients, and as a result accessing child and adolescent services is increasingly difficult. The children in our community experience disproportionate social and economic barriers and have high rates of exposure to trauma. Too many of them have mental health needs that go unmet, and Compass is willing to step into the gap.

Compass utilizes evidenced-based treatment, including Trauma-Focused Cognitive Behavioral Therapy (TF-CBT) in working with victims of trauma. TF-CBT is one of the most researched and validated models for addressing childhood trauma. Compass has also shown a willingness to work with the court and community in providing screening and assessment capacity, and as a treatment provider. As a partner in the recently announced PCAT grant, which is part of the Governor's statewide initiative to reduce ACEs (Adverse Childhood Experiences), Compass will continue to provide screening and assessment services and other resources to the children that need it most in the school system and court.

Again we offer our full support for Compass in this endeavor. Please do not hesitate to contact me should you have any questions or need more information.

Sincerely,

Dan H. Michael, Judge

October 26, 2016

Melanie Hill, Executive Director
Tennessee Health Services and Development Agency
502 Deaderick Street
Andrew Jackson Bldg., 9th Floor
Nashville, TN 37243

Re: Compass Intervention Center

Dear Ms. Hill:

On behalf of ALCO Management, Inc. I want to express our strong support for Compass Intervention Center's Certificate of Need application.

ALCO Management specializes in developing, acquiring, and successfully managing conventional and government-assisted apartment communities throughout the southeastern United States. We share a similar mission with Compass Intervention Center, in that we both exist to serve the communities in which we operate by providing an affordable and quality option to those in need. We understand that our properties often address critical housing shortages for those most in need in the neighborhoods we serve. Compass Intervention Center's expansion project would meet a similar need, addressing a critical shortage of behavioral health treatment centers dedicated exclusively to children.

There is a great need in our community and region for additional capacity for child and adolescent mental health services. The vast majority of psychiatric beds in the region are dedicated to treating adult patients, and as a result accessing child and adolescent services is increasingly difficult. As a management company that specializes in low-income housing, we feel the residents and families we serve would directly benefit from Compass Intervention Center's proposed expansion project. The children served in these facilities are most likely from families that call our communities home. The addition of 48 new beds dedicated exclusively to treating children would provide options and help to those children potentially facing a future plagued with violence and trauma because of the lack of intervention options available at a critical point in their life. The existing inpatient programs currently in place have little to no availability, leaving children in vulnerable situations that if not addressed could lead to higher numbers of contact with the justice system, or educational deficits. Three of the values we have built our business around are Caring, Responsiveness, and Growth. The proposed expansion project will not only have a positive economic impact for our community, but will also mirror our values by caring for and responding to those in need through effective treatment, and providing the patients an opportunity to grow as individuals through their experiences and go forward to grow in a healthy lifestyle.

Compass Intervention Center and ALCO Management are both committed to the communities we serve. ALCO Management supports and invests in our residents by partnering with Agape Child and Family Services and the Neighborhood Christian Center. We also support local agencies such as The Child Advocacy Center, The Boys and Girls Club, and Habitat for Hope, and look to grow our relationship with Compass Intervention Center through these networks that we both share and support in our community.

Again we offer our full support for Compass in this endeavor. Please do not hesitate to contact me should you have any questions or need more information.

Sincerely,

Dana P. Patterson

Dana P. Patterson
Director of Asset Management

Atrium Pharmacy
A Division of Home Care Medical Systems Inc.

260 West Main Street
Suite 217
Hendersonville, Tennessee 37075

Telephone (800) 831-1159
Fax (877)741-8964

November 16, 2016

Melanie Hill, Executive Director
502 Deaderick Street
Andrew Jackson Bldg, 9th Floor
Nashville, TN 37243

Dear Ms. Hill:

As Owner/Operator of Atrium Pharmacy Services, I would like to offer our strong support for Compass Intervention Center's Certificate of Need Application.

Our company currently provides Pharmacy Services to more Adolescent facilities than any other pharmacy in Tennessee. We see the level of service that is required to take care of this very important segment of our population. The availability of support services for these children is critical to their future.

There is a great need in our community and state for additional capacity for adolescent mental health services. Most psychiatric facilities are available to treat adult patients. For several years now, we have provided pharmacy for the Tennessee DCS Homes. In the beginning, there were five properties to render care and now there are only 3 homes. Where did all these children go?

It has been our experience working with Compass that they have an excellent group of physicians and a caring staff to help change the lives of so many children. They have programs that are tailored to the individual student. It is not a one size fits all.

Please do not hesitate to contact me should you have questions or need additional information.

Sincerely,

Wayne Smith

Wayne Smith

GREATER MEMPHIS CHAMBER

November 18, 2016

Melanie Hill, Executive Director
Tennessee Health Services and Development Agency
502 Deaderick Street
Andrew Jackson Bldg., 9th Floor
Nashville, TN 37243

Re: Compass Intervention Center

Dear Ms. Hill:

On behalf of the Greater Memphis Chamber, I want to express our strong support for Compass Intervention Center's Certificate of Need application. The Greater Memphis Chamber represents 2,500 local businesses and many of the top employers in the region. We estimate that the companies we represent have over 250,000 employees of which many of these employees have children.

There is a great need in our community and region for additional capacity for child and adolescent mental health services. The vast majority of psychiatric beds in the region are dedicated to treating adult patients, and as a result accessing child and adolescent services is increasingly difficult to access. I understand that upon completion of their expansion project, Compass Intervention Center will be the only Behavioral Health System in the region dedicated exclusively to treating children.

Compass has partnered with several of the regional universities, such as The University of Tennessee in Memphis and The University of Memphis, to provide high-quality clinical internships which will greatly prepare these professionals to help our children in the near future. Compass is also working in the community to help eliminate the stigma of mental health by promoting awareness and offering educational outreach programs.

Again, we offer our full support for Compass in this endeavor. I hope you will extend to them your favorable consideration.

Sincerely,

Philip H. Trenary
President and CEO
Greater Memphis Chamber

JOHNNIE R. TURNER

STATE REPRESENTATIVE
85TH LEGISLATIVE DISTRICT

HOME:
752 WEST LEVI ROAD
MEMPHIS, TENNESSEE 38109
(901) 785-6750

LEGISLATIVE OFFICE:
SUITE 38 LEGISLATIVE PLAZA
NASHVILLE, TENNESSEE 37243-0185
(615) 741-6954

House of Representatives
State of Tennessee

NASHVILLE

MEMBER OF COMMITTEES

CONSUMER AND HUMAN RESOURCES

EDUCATION ADMINISTRATION AND PLANNING

EDUCATION ADMINISTRATION AND PLANNING SUBCOMMITTEE

TREASURER
TN BLACK CAUCUS

November 7, 2016

Melanie Hill, Executive Director
Tennessee Health Services and Development Agency
502 Deaderick Street
Andrew Jackson Bldg., 9th Floor
Nashville, TN 37243

Re: Compass Intervention Center

Dear Ms. Hill:

On behalf of Memphis, I want to express my strong support for Compass Intervention Center's Certificate of Need application. I am particularly pleased that the site is in my district.

There is a great need in our community and region for additional capacity for child and adolescent mental health services. The vast majority of psychiatric beds in the region are dedicated to treating adult patients, and as a result accessing child and psychiatric services is increasingly difficult.

Compass Intervention Center is committed to measuring and improving treatment outcomes through robust data-driven performance improvement, patient satisfaction, and multiple clinical indicators. Among several other positive factors, this center has partnered with several universities, including the University of Memphis to provide high quality clinical internship experiences. This will ultimately benefit not only my constituents, but those in the countywide area.

Again I offer full support for Compass in this endeavor. Please do not hesitate to contact me should you have any questions or need more information.

Sincerely,

Johnnie R. Turner

Johnnie R. Turner
State Representative, District 85

City of Memphis
TENNESSEE

A C WHARTON, JR.
MAYOR

October 27, 2015

Melanie Hill, Executive Director
Tennessee Health Services and Development Agency
502 Deaderick Street, Andrew Jackson Bldg., 9th Floor
Nashville, TN 37243

Dear Ms. Hill:

The City of Memphis strongly supports Compass Intervention Center's Certificate of Need application. The children Compass serves face an overwhelming amount of barriers to health including higher amounts of violence and trauma exposure, higher numbers of contact with the justice system, economic and educational deficits and a lack of appropriate treatment resources. There is a great need in our community and region for additional capacity for child and adolescent mental health services. The vast majority of psychiatric beds in the region are dedicated to treating adult patients, and as a result accessing child and adolescent services is increasingly difficult.

Compass Intervention Center specializes in children's trauma recovery and the treatment of co-occurring mental health and substance abuse disorders by a clinical team trained in Trauma-Focused Cognitive Behavioral Therapy (TF-CBT). Compass recently piloted the HERO program, designed to screen and divert appropriate adolescents with minor offenses away from the juvenile justice system and into available treatment services. Compass is exploring opportunities to assist Memphis and Shelby County toward the same goal.

Upon completion of this expansion project, Compass Intervention Center will be the only Behavioral Health System in the region dedicated exclusively to treating children. This expansion will include a capital injection of several million dollars into the local economy and add up to 60 good paying jobs to the community.

The City of Memphis offers our full support for Compass in this endeavor. Please do not hesitate to contact me should you have any questions or need more information.

Sincerely,

A C Wharton, Jr.

Suite 700 • 125 N. Main Street • Memphis, Tennessee 38103-2078 • (901) 576-6000 • FAX (901) 576-6018

November 3, 2016

Melanie Hill, Executive director
Tennessee Health Services and Development Agency
502 Deaderick Street
Andrew Jackson Bldg., 9th Floor
Nashville, TN 37243

Re: Compass Intervention Center

Dear Ms. Hill:

On behalf of First Step Recovery Centers, I want to express our strong support for Compass Intervention Center's Certificate of Need application.

Compass Intervention Center is a residential treatment facility for adolescents, both male and female ranging in age from 6 to 17, struggling with behavioral problems, mental health disorders and co-occurring substance abuse disorders. Compass also overs an Intensive Outpatient Program and a Partial Hospitalization Program, making it easier for adolescents to successfully transition from program to program, or even just start a program at the level of care needed for the individual. The additional inpatient beds will allow Compass offer a full continuum of care for children and adolescents.

In 2015, the state of Tennessee department of mental health and substance abuse services cut funding for adolescent treatment centers statewide. With this funding cut came lack of beds, resources, and issues with insurance providers covering or helping with costs. This made an already difficult journey for adolescents and their families even more problematic. There is a great need in our community and region for additional capacity for child and adolescent mental health services. This increase in capacity could help with the overwhelming amounts of barriers, including higher amounts of violence and trauma exposure, higher numbers of contact with the justice system, economic and educational deficits these adolescents face. The vast majority of psychiatric beds in the region are dedicated to treating adult patients, and as a result accessing child and adolescent services is increasingly difficult.

1950 Madison Avenue
Memphis TN 38104

www.firststeprecoverycenters.org
info@firststeprecovery.org

901-522-1002
901-522-1004 fax

I have heard of many positive experiences from different families and individuals regarding Compass Intervention Center and the work they do. Their employees are talented and dedicated. Compass has a great working relationship with different treatment centers and the community.

Again, we offer our full support for Compass in this endeavor. Please do not hesitate to contact me should you have any questions or need more information.

Sincerely,

Walter Williams

Executive Director

1950 Madison Avenue
Memphis TN 38104

www.firststeprecoverycenters.org
info@firststeprecovery.org

901-522-1002
901-522-1004 fax

November 7, 2016

Melanie Hill, Executive Director
Tennessee Health Services and Development Agency
Andrew Jackson Building, 9th Floor
502 Deaderick Street
Nashville, TN 37243

RE: Compass Intervention Center

Dear Ms. Hill:

I am writing as a graduate student in Clinical Mental Health Counseling. Through my intensive and extensive work as a Clinical Intern at a local facility, I realized the need for additional services for the youth and adolescent populations within our communities. The need is great to offer varied services, including in-patient treatment facilities such as Compass for competent care and recovery of children. This population needs a place that is specifically designed and staffed to care for their presenting mental illnesses and emotional dysregulation. They also deserve to have a facility that is attune to give proper diagnosis and treatment of their presenting disorders.

After studying information about the Compass Intervention Center, I am excited to write in support of their expansion so that many more children and adolescents can receive the care they need in a facility that is designed for their age group. This will ensure that at-risk children and adolescents, many whom present with severe trauma based disorders, will have an opportunity to receive treatment and have a place in which to attend school and continue their education. The extensive clinical training of the facility staff was a key point that encouraged me to seek having Compass included for recommendation to my Internship site. This is a wonderful opportunity for referral and continuation of care for children and adolescents needing the services of in-patient care.

I offer my support to this endeavor. Please do not hesitate to contact me should you have any questions or need additional information.

Regards,

Priscilla Williams
Candidate for M.A. Clinical Mental Health Counseling
Regent University

Allen B. Couch, Jr.
Senior County Court Judge
acouch@desotocountyms.gov

Marilyn Culver
County Court Administrator
mculver@desotocountyms.gov

Michelle Brown
Court Reporter
mbrown@desotocountyms.gov

Phone: (662) 469-8371
Fax: (662) 469-8318

Celeste Embrey Wilson
County/Youth Court Judge
cwilson@desotocountyms.gov

Rikki Ogle
Youth Court Administrator
rogle@desotocountyms.gov

Marsha Allred
Court Reporter

Phone: (662) 469-8336
Fax: (662) 469-7886

Office of the County Court Judge

November 16, 2016

Dear Sir or Madam,

I am pleased to learn of the expansion project that Compass Intervention Center has proposed. The proposal that was supplied for my review appears very valuable to the continuing efforts of providing quality care for juveniles in our community.

Over the past several years, the Youth Court has enthusiastically worked collaboratively with Compass Intervention Center to create conditions necessary for efficient service delivery within the local system of care for children and youth. Our goal has been that of identifying and accessing both traditional and non-traditional services for the children and youth. Compass has provided services to our children in the Juvenile Detention Center at no cost to the county or to the children that they serve. The services that they have provide our children have been exceptional and I look forward to any expansion program that they may pursue. Even though their facility is located in Tennessee, they have served the children of DeSoto County and we look forward to their acceptance of Mississippi Medicaid.

I appreciate the quality of care and service that Compass Intervention Center has given the underserved children in our community. I look forward to any systems expansion that would benefit the children in our community.

Kindest Regards,

Celeste E. Wilson

TRAUGER & TUKE
ATTORNEYS AT LAW
THE SOUTHERN TURF BUILDING
222 FOURTH AVENUE NORTH
NASHVILLE, TENNESSEE 37219-2117
TELEPHONE (615) 256-8585
TELECOPIER (615) 256-7444

December 1, 2016

VIA HAND DELIVERY

Ms. Melanie Hill
Executive Director
Tennessee Health Services
& Development Agency
Andrew Jackson Building, 9th Floor
502 Deaderick Street
Nashville, TN 37243

RE: Compass Intervention Center
Certificate of Need CN1606-025

Dear Ms. Hill:

Attached please find a letter of support to be filed on behalf of my client, Keystone Memphis, LLC d/b/a Compass Intervention Center. Included in this filing are the original and three (3) copies of one (1) support letter listed below:

Dan O. Mueller, Pharm.D.
Pharm-Care, Inc.

I have also enclosed an extra copy to be date stamped and returned to me.

Thank you for your assistance.

Very truly yours,

Byron R. Trauger

BRT/kmn

Enclosures

cc: Kim Looney, Esq., Waller
Dan Elrod, Esq., Butler Snow

Pharm-Care, INC.

November 30, 2016

Melanie Hill, Executive Director
Tennessee Health Services and Development Agency
502 Deaderick Street
Andrew Jackson Bldg., 9th Floor
Nashville, TN 37243

Re: Compass Intervention Center

Dear Ms. Hill:

On behalf of Compass Intervention Center I want to express our strong support for their Certificate of Need application.

As a residential treatment center for psychiatric and dual diagnosis disorders for children and adolescents, their programs address an ever increasing issue in our society today and represent the only behavorial health system in our region dedicated exclusively to treating children. The staff and the children served represent a great diversity including those who are predominately underserved, low-income and have the greatest need across all types of disorders. Their expansion to include 48 new beds will not only address these disorders but also address a huge need in our community of suicide prevention, including not only mental health issues but substance abuse disorders also. The facility also is involved in training programs with five universities in our area providing quality clinical internship experiences for a variety of degrees. The Mobile Assessment program efficiently identifies those who would benefit from treatment and includes an effort to screen and divert appropriate adolescents with minor offenses away from the juvenile justice system and into available treatment services. Their medical, pharmacy and nursing team is exceptional providing superior care to even the most challenging children.

There is a great need in our community and region for additional capacity for child and adolescent mental health services. The vast majority of psychiatric beds in the region are dedicated to treating adult patients, and as a result accessing child and adolescent services is increasingly difficult.

My personal involvement in the past revolved around my interest in identifying and preventing metabolic disorders in children who have been prescribed antipsychotic agents and mood stabilizers due to excessive weight gain. Also, I am in the stages of development of a robust genetic testing program for the metabolism and excretion of medications in children and adolescents which identifies individual genetic variations in the individual patient which makes them unable to tolerate certain medications used in their treatment. Compass Intervention Center has a Drug Utilization Program that encourages such projects to be undertaken.

Again we offer our full support for Compass in this endeavor. Please do not hesitate to contact me should you have any questions or need more information.

Sincerely,

Dan O. Mueller, Pharm.D.

7135 Getwell Rd. N, Suite 101 • Southaven, MS 38672
Office: 662-349-7150/ Toll Free 888-717-4020 • Fax: 662-349-7152/ Toll Free 888-717-4021

THE UNIVERSITY of TENNESSEE
HEALTH SCIENCE CENTER

COLLEGE of MEDICINE

Department of Psychiatry
Child and Adolescent Psychiatry Section
711 Jefferson Ave., Room 162
Memphis, TN 38105-5095
Phone: (901) 448-5944
Fax: (901) 448-5089

October 14, 2016

Melanie Hill, Executive Director
Tennessee Health Services and Development Agency
502 Deaderick Street
Andrew Jackson Bldg., 9th Floor
Nashville, TN 37243

Re: Compass Intervention Center

Dear Ms. Hill:

On behalf of (specific agency), our agency would like to express our strong support for Compass Intervention Center's Certificate of Need application.

Upon completion of the project, Compass Intervention Center will be the only behavioral health agency in the region that will solely treat children and adolescents. Being an agency that specializes in treating children, we can appreciate the distinctive and exceptional care this type of concentration provides. For the families in our region, this offers a specialized, unique treatment experience that specifically treats mental health, behavioral, and the trauma needs of this population. There is a great need in our community and region for additional capacity for child and adolescent mental health services. The vast majority of psychiatric beds in the region are dedicated to treating adult patients. As a result, accessing child and adolescent services is increasingly difficult, and existing inpatient programs are consistently full or not accepting patients.

The children that we serve face an overwhelming amount of barriers to health including higher amounts of violence and trauma exposure, higher numbers of contact with the justice system, economic and educational deficits and a lack of appropriate treatment resources. Compass Intervention Center specializes in children's trauma recovery and the treatment of co-occurring mental health and substance abuse disorders. They have made significant strides in developing their trauma program that has demonstrated positive outcomes with working with the toughest kids.

Our agency offers our full support for Compass in this unique and needed endeavor. Please do not hesitate to contact our agency should you have any questions or need more information.

Sincerely,

Valerie Arnold MD, FAPA, DFAACP, ACPsych
Chief of Child and Adolescent Psychiatry
Psychiatry Department
College of Medicine
University of Tennessee Center for the Health Sciences
711 Jefferson Ave.
Memphis, TN. 38105
901-448-5944 (work) / 901-448-5089 (fax)

COMPASS
INTERVENTION CENTER

7900 Lowrance Road • Memphis, Tennessee 38125
888-266-7279 • P. 901-758-2002 • F. 901-758-2156
www.compassinterventioncenter.net

Compass Intervention Center is a 108-bed Residential Treatment Center for psychiatric and dual diagnosis disorders for children and adolescents. Intensive Outpatient services and a Partial Hospital Program are also operated onsite. The facility is located in southeast Memphis, TN near Winchester Road and Hacks Cross Road. Compass Intervention Center plans to upgrade and expand our campus and the services we offer, with the goal of building a comprehensive Children's Behavioral Health System. Our plan is to add inpatient children's services to our current continuum of care. Our proposal includes 48 new beds, renovations to our dietary area and additional support space including a new gym. **We seek your support for our project and our Certificate of Need Application. We will have a hearing before the Health Services Development Agency in October to determine if our application is approved. We would love to add your voice of support to the growing chorus of community members and agencies that are supporting the project.**

We want to take the opportunity to provide some vital information that highlights our compassion for children through the services we deliver, our level of commitment to our communities, and the tremendous need for quality care.

- Upon completion of our expansion project, Compass Intervention Center will be the only Behavioral Health System in the region dedicated exclusively to treating children.
- We treat children with severe and chronic mental health, behavioral problems, and substance use disorders who are predominantly underserved, low-income, and have the greatest need across domains.
- Like the children and families we serve, our employees represent a diverse mix of backgrounds and educations and are dedicated to providing care that is outcome driven, culturally competent, and focused on treating the patients and families as a whole.
- The expansion will include a capital injection of several million dollars into the economy. Upon full implementation our expansion will add over 70 good-paying jobs to the community.
- 40,000 Americans commit suicide each year, and many more make attempts or engage in self-harming behaviors. Despite this sad fact, suicide is one of the most preventable causes of death through proper treatment.
- Compass Intervention Center is committed to measuring and improving treatment outcomes through robust data-driven performance improvement, patient satisfaction, and multiple clinical indicators. We are positioned to be a key partner as Tennessee transitions to value driven services. We are committed to working with the State and MCOs to ensure delivery of efficacious services.
- Though we work with all children in need, Compass Intervention Center specializes in children's trauma recovery and the treatment of co-occurring mental health and substance abuse disorders. Our entire clinical team is trained in Trauma-Focused Cognitive Behavioral Therapy (TF-CBT), with multiple therapists pursuing or eligible for national certification.
- Compass Intervention Center has partnered with several Universities, including University of Tennessee, University of Memphis, University of Mississippi, Harding University and Union University to provide high quality clinical internship experiences to Bachelors and Masters level students pursuing a variety of degrees.
- Our onsite school, Compass Academy, is consistently recognized with "Best-in-Class" distinction.
- Compass recently launched the HERO program, which is designed to screen and divert appropriate adolescents with minor offenses away from the juvenile justice system and into available treatment services.

Items you might discuss in your letter of support:

- The level of need in our community is high. The children that we serve face an overwhelming amount of barriers to health including higher amounts of violence and trauma exposure, higher numbers of contact with the justice system, economic and educational deficits and a lack of appropriate treatment resources. Existing inpatient programs for children and adolescents are consistently full, and/or not accepting patients.
- The dedication of our Mobile Assessment and Admissions departments. Compass provides free assessments onsite, telephonically, and mobile in the community to ensure that every referral is managed in a timely, efficient manner from call to disposition. Even if our services are not the best fit for a particular child, we will make sure that linkage is made to appropriate services in the community to meet a child and family's needs.
- The quality of our clinical programs. We are making great strides in our trauma program, and we are seeing the positive impact in the lives of the children we work with. Our data proves that we have created a program that is focused on safety, clinical outcomes, and service to our patients. Our patient satisfaction and outcome measures continue to improve, and our restraint reduction initiatives have been identified as a best practice. Our innovative approach to care includes partnerships with Ballet Memphis, The Dixon Gallery and Gardens, and Mid-South Animal Assisted Therapy.
- Our commitment to the communities we serve. Our facility and leadership teams are actively involved in a variety of community service that ranges from non-profit board membership, volunteerism, committee leadership, and sponsorship. We are invested in our communities and most especially the people and agencies that we have the privilege of working with. We strive to help eliminate the stigma of mental health by promoting awareness and offering education to the community.
- Our exemplary medical and nursing team. Our medical and nursing staff is exceptional, has tenure, and is committed providing superior care. We are able to manage complex medical issues while still providing the highest quality behavioral health care.
- Our ability to work with even the toughest kids. We believe all children should be offered superior care no matter their circumstances. At Compass Intervention Center we often accept challenging children that have difficulty gaining access to services. We recognize that every child and family is unique and that we have to offer individualized, culturally competent care. Our satisfaction comes from helping children and families make meaningful and lifelong changes in their lives.
- Our employees. They forge a path to healing every day, selflessly giving themselves for the sole purpose of the children in our care. We go above and beyond, communicating effectively, and delivering results. Our employees build and maintain relationships with friends, colleagues, agencies, and the community; they are at the core of what allows us to succeed in our mission.

If you have any additional questions about the project or Compass, please don't hesitate to contact us.

Please address all letters to the contact below and **forward back to Compass so we can submit all letters in support of our application:**

Melanie Hill, Executive Director
Tennessee Health Services and Development Agency
Andrew Jackson Building 9th Floor
502 Deaderick St
Nashville, TN 37243

waller

Waller Lansden Dortch & Davis, LLP
511 Union Street, Suite 2700
P.O. Box 198966
Nashville, TN 37219-8966

615.244.6380 main
615.244.6804 fax
wallerlaw.com

Kim Harvey Looney
615.850.8722 direct
kim.looney@wallerlaw.com

October 10, 2016

VIA HAND DELIVERY

Melanie M. Hill
Executive Director
Tennessee Health Services and Development Agency
Andrew Jackson Building
9th Floor
502 Deaderick Street
Nashville TN 37243

Re: Keystone Memphis, LLC d/b/a Compass Intervention Center - CN1606-025

Dear Melanie:

This is to provide official notice that our client, Saint Francis Hospital, wishes to oppose the application of Keystone Memphis, LLC d/b/a Compass Intervention Center CN1606-025 for the establishment of 48 bed inpatient mental health hospital in Shelby County, Tennessee. This application will be heard at the October meeting. Representatives for Saint Francis Hospital will be present at the hearing.

Saint Francis respectfully requests the HSDA deny this request. If you have any questions, please give contact me at 615-850-8722 or by email at Kim.Looney@wallerlaw.com.

Sincerely,

Kim Harvey Looney

KHL:lag
cc: Byron R. Trauger, Esq.
Paul W. Ambrosius, Esq.

waller

Waller Lansden Dortch & Davis, LLP
511 Union Street, Suite 2700
P.O. Box 198966
Nashville, TN 37219-8966

615.244.6380 main
615.244.6804 fax
wallerlaw.com

Kim Harvey Looney
615.850.8722 direct
kim.looney@wallerlaw.com

October 10, 2016

VIA HAND DELIVERY

Melanie M. Hill
Executive Director
Tennessee Health Services and Development Agency
Andrew Jackson Building
9th Floor
502 Deaderick Street
Nashville TN 37243

Re: Keystone Memphis, LLC d/b/a Compass Intervention Center - CN1606-025

Dear Melanie:

This is to provide official notice that our client, Crestwyn Behavioral Health, wishes to oppose the application of Keystone Memphis, LLC d/b/a Compass Intervention Center CN1606-025 for the establishment of 48 bed inpatient mental health hospital in Shelby County, Tennessee. This application will be heard at the October meeting. Representatives for Crestwyn Behavioral Health will be present at the hearing.

Crestwyn Behavioral Health respectfully requests the HSDA deny this request. If you have any questions, please give contact me at 615-850-8722 or by email at Kim.Looney@wallerlaw.com.

Sincerely,

Kim H. Looney

Kim Harvey Looney

KHL:lag
cc: Byron R. Trauger, Esq.
Paul W. Ambrosius, Esq.

BAPTIST MEMORIAL HEALTH CARE CORPORATION

October 10, 2016

Melanie Hill
Executive Director
Tennessee Health Services
And Development Agency
Andrew Jackson, 9th Floor
502 Deaderick Street
Nashville, TN 37243

Re: Compass Intervention Center, CN1606-025

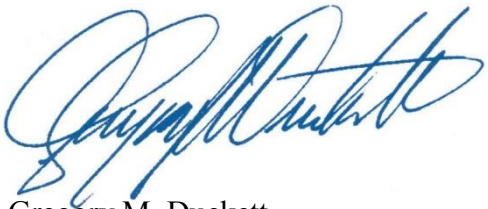
Dear Ms. Hill:

On behalf of Baptist Memorial Hospital-Memphis, this letter submitted in opposition to the project referenced above.

In our view, the project proposed in the application does not meet the statutory criteria of need, financial feasibility and contribution to the orderly development of health care. Representatives of Baptist Memorial Hospital-Memphis will be present at the Agency's meeting on October 26, 2016, to explain our objection to the application and to answer any questions the Agency's members may have. In the meantime, we would appreciate the appropriate distribution of this letter of opposition.

Thank you for your attention to this letter.

Respectfully submitted,



Gregory M. Duckett
Senior Vice President, Chief Legal Officer
Baptist Memorial Health Care Corporation

Copy to:
Byron Trauger
Trauger & Tuke
222 4th Avenue North
Nashville, TN 37219

RULES
OF
HEALTH SERVICES AND DEVELOPMENT AGENCY

CHAPTER 0720-11
CERTIFICATE OF NEED PROGRAM – GENERAL CRITERIA

TABLE OF CONTENTS

0720-11-.01 GENERAL CRITERIA FOR CERTIFICATE OF NEED. The Agency will consider the following general criteria in determining whether an application for a certificate of need should be granted:

(1) Need. The health care needed in the area to be served may be evaluated upon the following factors:

(a) The relationship of the proposal to any existing applicable plans;

(b) The population served by the proposal;

(c) The existing or certified services or institutions in the area;

(d) The reasonableness of the service area;

(e) The special needs of the service area population, including the accessibility to consumers, particularly women, racial and ethnic minorities, TennCare participants, and low-income groups;

(f) Comparison of utilization/occupancy trends and services offered by other area providers;

(g) The extent to which Medicare, Medicaid, TennCare, medically indigent, charity care patients and low income patients will be served by the project. In determining whether this criteria is met, the Agency shall consider how the applicant has assessed that providers of services which will operate in conjunction with the project will also meet these needs.

(2) Economic Factors. The probability that the proposal can be economically accomplished and maintained may be evaluated upon the following factors:

(a) Whether adequate funds are available to the applicant to complete the project;

(b) The reasonableness of the proposed project costs;

(c) Anticipated revenue from the proposed project and the impact on existing patient charges;

(d) Participation in state/federal revenue programs;

(e) Alternatives considered; and

(f) The availability of less costly or more effective alternative methods of providing the benefits intended by the proposal.

(3) Contribution to the Orderly Development of Adequate and Effective Healthcare Facilities and/or Services. The contribution which the proposed project will make to the orderly development of an adequate and effective health care system may be evaluated upon the following factors:

(Rule 0720-11-.01, continued)

(a) The relationship of the proposal to the existing health care system (for example: transfer agreements, contractual agreements for health services, the applicant's proposed TennCare participation, affiliation of the project with health professional schools);

(b) The positive or negative effects attributed to duplication or competition;

(c) The availability and accessibility of human resources required by the proposal, including consumers and related providers;

(d) The quality of the proposed project in relation to applicable governmental or professional standards.

(4) Applications for Change of Site. When considering a certificate of need application which is limited to a request for a change of site for a proposed new health care institution, The Agency may consider, in addition to the foregoing factors, the following factors:

(a) Need. The applicant should show the proposed new site will serve the health care needs in the area to be served at least as well as the original site. The applicant should show that there is some significant legal, financial, or practical need to change to the proposed new site.

(b) Economic factors. The applicant should show that the proposed new site would be at least as economically beneficial to the population to be served as the original site.

(c) Contribution to the orderly development of health care facilities and/or services. The applicant should address any potential delays that would be caused by the proposed change of site, and show that any such delays are outweighed by the benefit that will be gained from the change of site by the population to be served.

(5) Certificate of need conditions. In accordance with T.C.A. § 68-11-1609, The Agency, in its discretion, may place such conditions upon a certificate of need it deems appropriate and enforceable to meet the applicable criteria as defined in statute and in these rules.

Authority: *T.C.A. §§ 4-5-202, 68-11-1605, and 68-11-1609.* ***Administrative History:*** *Original rule filed August 31, 2005; effective November 14, 2005.*

CERTIFICATE OF NEED REVIEW
CN1606-025

12/1/2016 Revision

Keystone Memphis, LLC
d/b/a Compass Intervention Center
7900 Lowrance Road
Memphis, TN 38125

The Department of Mental Health and Substance Abuse Services staff has reviewed the application for a Certificate of Need (CON) submitted by Compass Intervention Center (Compass) for the construction of a 48 bed inpatient mental health hospital for children and adolescents up to age 18 in Memphis, Tennessee. In accordance with Rules of the Tennessee Health Services Development Agency, the Department's analysis consists of the following components: Need; Economic Feasibility; and Contribution to the Orderly Development of Health Care. Effective July, 2016, new statute added a fourth component: Healthcare that Meets Appropriate Quality Standards.

This review and analysis has three (3) parts:

- Scope of Project
- Analysis of Need, Economic Feasibility, Appropriate Quality Standards and Contribution to the Orderly Development of Health Care
- Conclusions

1. SCOPE OF PROJECT

The Compass Intervention Center proposes to construct a 48 bed child and adolescent inpatient psychiatric facility with additional patient support space at their current location of 7900 Lowrance Road, Memphis, (Shelby County) TN 38125. The space will also allow for future growth of outpatient services, 25 additional parking spaces in the northeast section of the property, the renovation and expansion of dietary services, creation of additional outdoor patient areas, and the construction of a new gymnasium. The proposal does not contain major medical equipment.

Compass currently provides 30 residential beds for child and adolescent chemical dependency services and 78 licensed mental health residential beds (62 are staffed) and provides outpatient and partial hospitalization mental health services. All current beds and services are licensed by TDMHSAS. None of these services are subject to this Certificate of Need review.

The estimated project cost is $12,152,661. Funding for this project will be provided by cash reserves or credit, or a combination of both, by the parent company, Universal Health Services, Inc.

Compass proposes primarily to serve 19 Tennessee counties with a secondary service area of 9 counties in Arkansas (Craighead, Cross, Greene, Jackson, Lee, Mississippi, Poinsett, St. Francis, Woodruff) and one county in Mississippi (DeSota), all within a 120 mile radius and 2 hour travel time of Compass. The service area is based on proximity to Compass, their existing mobile assessment services and historical referral relationships.

If approved in CY 2016, Compass expects to initiate services in May, 2018.

2. ANALYSIS

A. Need

Tennessee's Health Guidelines for Growth sets the population-based estimate for the total need for psychiatric inpatient services at 30 beds per 100,000 general population. These Guidelines do not further stratify those numbers for special populations or age groups. The application of the formula sometimes results in an underestimation of the number of inpatient psychiatric beds needed due to a number of factors: bed utilization, willingness of the provider to accept emergency involuntary admission, the extent to which the provider serves the TennCare population and/or the indigent population, the number of beds designated as "specialty" beds or beds designated for specific diagnostic categories. These factors impact the availability of beds for the general population as well as for specialty populations, depending on how the beds are distributed. Other influencing factors include the number of existing beds in the proposed service area, bed utilization and support for community services for people to increase family involvement, utilization of the person's community support system and access to aftercare.

For the analysis for this Application, the JAR's definition of staffed beds is used: the total number of pediatric beds set up, staffed and in use at the end of the reporting period. This number should be less-than or equal-to the number of licensed beds.

Existing Beds: The Applicant indicated that there are 90 existing child and adolescent (youth) psychiatric inpatient beds in their Tennessee service area (Supplemental #1). Based on population, the Applicant finds a bed need for 119 beds for ages 0-17 in the proposed service area in 2020.

Population and Need: Population data for 0-17 years of age for 2016 and 2020 for the counties in the proposed service area can be found in Appendix A. Current bed supply is in Chart 1.

Using the service area population data in Chart 2, we find the **Tennessee 2016** 0-17 years of age population to be 390,736 with a bed need of 117 and a supply of 111 beds. For this report, the bed supply has been updated to include 2016 staffed beds at Lakeside, 61 (with the July addition of 6 beds), 35 at St. Francis and 15 newly opened beds at Crestwyn. With the **2020** projected **Tennessee** service area population of 395,172, an increase of 4,436, the bed need would be 119.

This data appears to recognize the population-based 2016 **Tennessee** unmet need of 6 beds. Barring the addition of other beds, in 2020, there would be a population-based undersupply of 2 additional beds in the **Tennessee** service area.

Other Counties in the Service Area

The 0-17 years of age 2016 population of the Mississippi (DeSoto) and Arkansas counties (Crittenden, Craighead, Cross, Greene, Jackson, Lee, Mississippi, Poinsett, St. Francis, Woodruff) in the proposed service area is 140,460. There is a supply of 90 beds and a bed need of 42 using Tennessee's Guidelines for Growth formula of 30 beds per 100,000. The Arkansas and Mississippi service area projected 2020 population is 143,665, an increase of 3,205 youth, and a bed need of 43. In Mississippi, a total of 74 child and adolescent beds are available at two hospitals: Mississippi State Hospital (beds are available to county but not located in the county) with 22 child and adolescent beds and Parkwood with 52 beds. In Arkansas, 16 beds are available at the Arkansas State Hospital in Little Rock. Note: the Applicant lists 24 inpatient child and adolescent beds in Crittenden County, Arkansas. However, this number was not added to the supply in this report since the Arkansas Department of Mental Health does not list them as a C&A provider.) (Charts 1 and 2)

Chart 1
Current Bed Supply 0-17

	Licensed Beds	**ADC**	**Occupancy Rate**
Mississippi			
Mississippi State Hospital	22	N/A	N/A
Parkwood Behavioral Health System	52	34.68	66.70
Arkansas			
Arkansas State Hospital	16	16	100%
Tennessee			
St. Francis	35 (Ages 4-17)		50%
Lakeside	61*		92% (2014 total)
Crestwyn	15 (Ages 13-17)		100% (2016 C&A only)
Total	**201**		

*6 additional beds approved by HSDA and licensed in July, 2016.

Sources: 2014 Report on Hospitals Licensed by Mississippi State Department of Health, Division of Health Facilities Licensure and Certification; Arkansas Department of Mental Health; 2014 JAR; HSDA

Bed Supply and Need (Chart 2)

The existing bed supply for 0-17 years of age for the Applicant's entire primary service area is 201 beds; the current bed need is 160 (117 (Tennessee) + 43 (MS and

AR counties). Using the projected 2020 Tennessee and the identified out of state population, 538,837, the bed need would be 162.

Chart 2 Population Based Supply & Need 0-17			
2016	**Population**	**Need**	**Supply**
Tennessee	390,736	117	111
Arkansas	85,454	26	16
Mississippi*	55,006	17	74*
TOTAL	**531,196**	**160**	**201**
2020			
Tennessee	395,172	119	
Arkansas	84,571	25	
Mississippi*	59,094	18	
TOTAL	**538,837**	**162**	

***Mississippi data reported for 2015 and 0-19 age range**

Sources: 2014 Report on Hospitals Licensed by Mississippi State Department of Health, Division of Health Facilities Licensure and Verification; Arkansas Department of Mental Health; 2014 JAR; HSDA

Using a population based bed need and the Tennessee Guidelines for Growth formula, there is a slight undersupply of beds in Tennessee, both currently and in 2020. Using the same formula for the entire proposed service area including Tennessee and the Arkansas and Mississippi counties, there is an oversupply of child and adolescent beds.

Other Needs Data

Lakeside, St. Francis and Crestwyn have the only inpatient children and adolescent beds in the Applicant's proposed Tennessee service area and their admissions cover the same service area. From the 2014 JAR report, Lakeside reported 13,794 patient days in the 0-17 age range (68% occupancy of licensed youth beds) and 58 youth 0-17 on September 30. St. Francis reported 6,359 patient days (50% licensed bed occupancy) with 23 youth 0-17 in the hospital on September 30, 2014. Crestwyn has recently started admitting adolescents to their 15 bed adolescent unit and on September 12, 2016 reported 16 adolescents. The Applicant also reports a combined occupancy of 61.3% on licensed beds for St. Francis and Lakeside (2014 JAR) and a combined licensed staffed bed rate of 93.3%.

The Applicant feels that demand for services is not met for several reasons (Supplemental #1):

- Lakeside and St. Francis are frequently full or unable to accept patients.
- Mobile Crisis Teams are not always able to locate a bed.
- Additional capacity of Crestwyn does not fully address population-based need, or the increased actual need for bed capacity. (application pre-dates addition of beds at Lakeside).

From the "Status of Suicide in Tennessee, 2014" report published by the Tennessee Suicide Prevention Network, suicide is the third leading cause of death for 10-19 year olds in 2014 in Tennessee. The suicide rate in the state is 5.8 per 100,000 population. The Applicant's area has the lowest suicide attempt hospitalization rate in the state. "Even though suicide rates are lower in this age group than others, even one young person lost to suicide is too many."

During FY 16, TDMHSAS reports that 822 youth under the age of 18 were admitted for hospitalization following assessment and referral by the state funded crisis teams in the Applicant's Tennessee service area. Whether these youth were admitted voluntarily or involuntarily is unknown. Facility availability for involuntary admissions is important but less critical for the 0-17 age range because parents can admit their children without going through the involuntary hospitalization process.

The Applicant reports 153 Lakeside turn aways or deferrals based on lack of capacity in the first three months of 2016. St. Francis reported deferring over 100 psychiatric patients in March 2016 alone. For the Shelby County/Memphis region, occupancy as a percentage of staffed beds is over 86%, supporting an indication for additional capacity.

Lack of bed capacity frequently means waits in emergency departments or diversion to less than ideal treatment situations. If resources are unavailable, some individuals are referred out of state for treatment (although hospitals in Tennessee are default referrals from other states as well). In FY 16, 86 custodial youth were referred out of state for non-acute residential treatment or psychiatric residential treatment; acute referrals are unknown. Other youth are managed in EDs, DCS offices, mental health community settings and sometimes merely put on a waiting list.

Compass projects completing over 1000 screening and assessments this year with about 8% resulting in inpatient services and would be a feeder source for inpatient services provided by Compass. Compass projects their internal need for beds to be an average census of 6.6 or 200 patient days upon opening.

B. Economic Feasibility

Ownership and Management

Keystone Memphis LLC, d/b/a Compass Intervention Center is directly and wholly owned by Keystone Education and Youth Services LLC, which is wholly owned by Keys Group Holdings LLC, which is wholly owned by UHS Children's Services, Inc. which is wholly owned by Universal Health Services, Inc.

Universal Health Services, Inc. and its subsidiaries operate 216 behavioral health facilities in 37 states, Washington, DC, Puerto Rico, the U.S. Virgin Islands and the United Kingdom. Universal Health Services, Inc. is the parent company for two other hospitals in Tennessee: Lakeside Behavioral Health System, Memphis and Rolling

Hills Hospital, Franklin. Both hospitals serve children and adolescents. Universal Health Services, Inc. also owns five (5) residential treatment facilities for youth in Tennessee: Cedar Grove Residential Treatment Center, Murfreesboro; McDowell Center for Children, Dyersburg; Mountain Youth Academy, Mountain City; Natchez Trace Youth Academy, Waverly; and Oak Plains Academy, Ashland City. The Applicant has no financial interest in any other facility, including those owned by Universal Health Services, Inc. (Original application)

Universal Health Services, Inc. has committed to funding the project through cash reserves or credit or a combination of both. The Applicant submitted documentation verifying availability of credit.

Project Alternatives

The Applicant rejected construction of a facility in a centrally located area because of interest in "a one of a kind comprehensive children's psychiatric system that requires onsite integration of the proposed project into existing services and levels of care." (Supplemental #1, page 7). Additionally the undeveloped portion of Compass' existing property allows for construction without additional costs associated with identifying and acquiring property elsewhere. They also expect that expansion onsite allows for greater "synergy with existing human, support, and administrative resources."

Construction Costs

The proposed renovated construction cost is $228.13 sq./ft, slightly above the median. The new construction cost is between the first quartile and median at $276.44 sq./ft. The total construction cost is $272.58 sq./ft., falling between the median and third quartile. The proposed construction costs of $7,679,726 ($272.58 sq./ft) are roughly consistent with the published Hospital Construction costs for years 2013-2015 and the CON for the recently implemented Crestwyn hospital project at $244.85 sq./ft. The Applicant reports that the proposed renovation costs are on target with the median and the overall cost per-square-foot falls between the median and third quartile. These construction costs appear reasonable.

The estimated project cost of this proposal is $12,125,378, all of which fall under construction and equipment acquired by purchase. The project costs chart does not list any financing costs and fees.

Occupancy Projections

The Applicant projected occupancy of 80% in Year 5 and 90% occupancy in Year 6. These projections are based on historical utilization for their existing residential services. Average daily census is expected to be 9.2 in Year 1 and 13.2 in Year 2. The occupancy rates for years 1, 2 and 3 (19%, 27%, and 40% respectively) appear quite low and are likely to result in lower operating margin and lengthened time to reach a

positive operation or even a break-even point. The Applicant's projection from the original application expects a positive operating margin within 6 months of beginning operation. However, the Year Two Project Data Chart shows a negative operating margin of $296K.

Revenue Sources and Estimates

Compass has existing contracts with all three TennCare MCOs and plans to seek the addition of inpatient hospital services to each contract. Coverkids and Tenncare Select are covered under their existing Bluecare contract. Children in state custody are proposed to be admitted to the new facility although there was no letter of support from DCS to this effect. Compass can provide the services to youth in custody under a DCS Unique Care Agreement per a single case.

The Applicant currently contracts with Arkansas Medicaid and will seek the addition of inpatient hospital services to that contract as well as a contract with Mississippi Medicaid if this proposed project is approved.

Revenue projections are based on current utilization, referrals and trends as well as population demographics of growth and TennCare participation. TennCare is projected to represent 40.5 % of gross revenue in Year One; commercial insurance at 41.5% and other at 18%. The Applicant does not list an amount or percentage of uncompensated care because it believes that almost all children have insurance or are eligible for Medicaid coverage. (Supplemental)

(Page 6 of Supplemental #2) The Applicant proposes charges for inpatient services as $2,027 per patient day in Year One and $2,019.61 in Year Two. The average net charge total net operating revenue by total days would be $521.88 in Year One and $698.17 in Year Two. The anticipated gross revenue from the proposal is $6,802,625 in Year 1 and $9,726,400 in Year 2. The anticipated net revenue is $1,751,453 in Year 1 and $3,362,413 in Year 2.

Overall, the low projected occupancy rates for Years 1 through 3 may result in increased costs per patient day and would impact favorable operating margins.

C. Healthcare That Meets Appropriate Quality Standards

The Applicant currently holds licenses in good standing from the Tennessee Department of Mental Health and Substance Abuse Services (TDMHSAS) for the following categories: Mental Health Intensive Day Treatment for Children and Adolescents; Mental Health Outpatient Treatment; Mental Health Partial Hospitalization; Alcohol and Drug Residential Treatment for Children and Adolescents (30 beds) and Mental Health Residential Treatment for Children and Adolescents (78 beds). Compass is currently CMS certified as a psychiatric residential treatment facility. The Applicant indicates the intention to comply with all continuing licensing and certification requirements imposed by applicable statutes

and regulations for these areas. If this project proceeds, the Applicant will also apply for TDMHSAS licensure for inpatient services, accreditation from The Joint Commission and certification for inpatient services from Medicaid.

Additionally, the Applicant currently tracks a variety of data to measure outcomes and quality of care provided with demonstration of a measured steady progress over a several year period in patient satisfaction, improvement in symptoms, behavioral interventions and other quality improvements. This data is used in their performance improvement actions and allows for targeted deployment of resources. The Applicant will continue this process in the proposed facility.

D. Contribution To The Orderly Development of Healthcare

The Applicant proposes to continue to provide services to youth across all racial and economic backgrounds, a mix of rural and urban populations with a high rate of poverty. The Applicant notes that it is relatively rare for children to need involuntary admission but they do propose to offer this option as appropriate. They also propose to continue their practice of working with complex cases involving multiple state or private agencies/providers. Compass considers this project as another service in a continuum of care in one location (original application, p.23). Compass expects to continue its existing focus on working with patient families including improving families' knowledge about mental illness, helping develop workable discharge plans with long-term success in mind, and helping families link with community based resources to support the recovery process. Compass proposes to be broadly accessible to youth regardless of payor source or ability to pay for services, will accept both voluntary and involuntary patients, and will serve TennCare enrollees.

The Applicant reports collaboration with a number and variety of community partners to provide assessment and diversion services for youth. These partnerships include local juvenile court systems, grant projects (proposed) to decrease suicide and intensive services to at-risk youth.

The proposed facility location is accessible by car and by some local public transportation.

Physical Plant

The Applicant proposes to construct a 48 bed inpatient facility with two 24 bed units on its existing campus. Both units will provide space for group therapy and activity spaces as well as exam, consult, and treatment space. The construction includes 1,000 sf shell space that will allow for future growth of outpatient programs. Also included is 2,850 sf activity therapy/gymnasium component and approximately 2,250 sf expansion/renovation of existing dining services to accommodate the increase in patient population. The facility will be designed to meet the most current requirements of the Facility Guideline Institute (FGI)

Guidelines for the Design and Construction of Healthcare Facilities and meet all other applicable code requirements.

The Applicant expects to admit patients ages 5-17 to both of the 24 bed units. The proposed facility will not be providing medical detox services but will provide services to youth who are dually diagnosed with psychiatric and chemical dependency (staff includes one physician who is Board Certified in Addiction Medicine). The design of the two distinct units does allow for flexibility in managing changing patient population demographics. Children and adolescents will participate in different programs and each age group will room with and in proximity to their appropriate peer group. Units will not be separated by gender but will have separate sleeping areas. The proposed physical plant appears to meet the stated purposes.

Staffing

According to TDOH (HRSA), all of the Applicant's proposed Tennessee service area is designated as a professional shortage area with the exception of a few Shelby County census tracts. Every county in the service area is also designated medically underserved in the Mental Health category with Shelby County being underserved in the low-income category. Neither of these reports separate by child and adolescent categories. (Sources: TN.Gov/Health/Article/Federal-Shortage-Areas and Datawarehouse.HRSA.Gove/Tools/Analyzers/Muafind.aspx)

The Applicant reports a recent addition of a psychiatrist and two psychiatric nurse practitioners to the staff and expects to be able to continue to recruit nurses, social workers and other health care providers. No specific recruitment plan was identified in the application.

Compass participated in the Memphis Community Based Learning Collaborative for Trauma-Focused Cognitive Behavioral Therapy, a validated treatment modality for children with trauma. This model will be used in the facility with all therapists trained in this evidenced-based best practice.

Proposed Year 1 staffing of the inpatient facility appears to meet minimum standards. In Year 1, the unit staffing allows for 1 RN and 1 Technician per unit per shift with staff added with increased census. In Year 3, if the facility is operating both 24 bed units, there does not appear to have sufficient number of RN's. Staffing for age area is minimal and appears to be based on 5 days, not 7 days. The M.D., psychologist and technician coverage appear adequate. The total number of staff appear adequate but if the nursing ratio was based on the standard 1.4 replacement factor for 7 day coverage, the ratio doesn't allow for either sick or annual leave time. Other staffing ratios allow for 1 master's therapist, 1 activity therapist and 1 teacher per 9 youth.

Effect on Existing Providers and Resources

The Applicant expects there to be minimal impact to existing service providers because of high utilization and demand in the service area. Only Lakeside, Crestwyn and St. Francis currently admit youth. Neither of the state hospitals in the service area have services for youth. The impact of newly opened child and adolescent beds at Lakeside and Crestwyn is unknow. The new facility could benefit the overall healthcare system by providing capacity for child and adolescent beds and adds to the ability to further coordinate and collaborate with other healthcare providers on a continuum of services.

Letters of Support or Opposition

Compass submitted letters of support from State Senator Reginald Tate and State Representative Steve McManus; Tennessee Suicide Prevention Network; Memphis Child Advocacy Center; Mental Health America of Middle Tennessee; Memphis Crisis Center (support for residential); American Forum for Suicide Prevention; The Oaks and Foundations, Memphis; Memphis Union Mission; Greater Community Temple; Tennessee Conference on Social Welfare; Camelot and Union University. No letters were submitted from Arkansas nor Mississippi. No letters of opposition were submitted by the Applicant.

Implementation of State Health Plan

The framework for the State Health Plan is based on the Five Principles for Achieving Better Health that generally address improvement of the health of Tennesseans; allow reasonable access to health care; development of resources to address the needs of Tennesseans while encouraging competitive markets, economic efficiencies, and the continued development of the state's health care system; monitoring for the quality of health care and support of the development, recruitment and retention of a sufficient and quality health care workforce (2013 Annual Report, State of Tennessee Division of Health Planning, page 8). Compass's application promotes these principles through addition of specialized healthcare for children and adolescents needing inpatient mental health treatment. It also proposes to provide access to services to underserved and low income populations, those needing voluntary and involuntary hospitalization and those with TennCare. The Applicant currently participates in professional training for behavioral health professionals. Their mobile assessment services can provide a referral source to the hospital and for outpatient services by Compass or other providers when hospitalization is unnecessary.

Working Relationship with Existing Health Care Providers and Transfer agreements

The application did not acknowledge specific transfer agreements although the application narrative indicates relationships with St. Francis, Lakeside and the Youth Villages Mental Health Mobile Crisis Team.

Participation in Training of Students

The Applicant currently partners with University of Tennessee, University of Memphis, University of Mississippi, and Union University for clinical internships. The application does not specifically address use of such internships in the proposed facility.

3. CONCLUSIONS

Compass proposes to serve minorities and individuals with low incomes and uninsured, including TennCare enrollees. To the extent that Compass is broadly accessible to low income and indigent patients, will accept both voluntary and involuntary patients, and will serve TennCare patients, they will be contributing to the availability of a continuum of psychiatric services.

The new facility should benefit the overall healthcare system by providing capacity for child and adolescent beds and adds to the ability to further coordinate and collaborate with other healthcare providers on a continuum of services.

The population based needs assessment supports a current need for 6 new beds and 2 additional beds in 2020 in the Tennessee service area. However, the occupancy rate for licensed child and adolescent beds in the proposed Tennessee service area is reported at 61.3%. The impact of new beds recently added at Lakeside and Crestwyn has yet to be determined.

Taken separately, the 2016 bed supply for the Arkansas and Mississippi service area is 90 with 43 beds needed; the 2020 population-based bed need did not change for Arkansas and Mississippi.

Actual need for the project may be questioned due to the Applicant's low projected patient volumes. The projected occupancy rates for Years 1, 2 and 3 (19%, 27%, and 40% respectively) appear quite low and are likely to result in lower operating margin and lengthened time to reach a positive operation or even a break-even point. Based on this assessment, fewer new beds than the proposed 48 new beds could be considered.

Appendix A: Population 0-17

Tennessee[1]	**2016**	**2020**
Carroll	6,107	5,927
Chester	3,959	3,880
Crockett	3,564	3,554
Dyer	9,295	9,309
Fayette	9,670	10,014
Gibson	12,355	12,397
Hardeman	5,383	5,143
Hardin	5,353	5,204
Haywood	4,386	4,178
Henderson	6,825	6,898
Henry	6,896	6,777
Lake	1,250	1,187
Lauderdale	6,653	6,580
McNairy	5,986	5,860
Madison	24,762	25,201
Obion	6,842	6,619
Shelby	247,503	252,312
Tipton	16,904	17,157
Weakley	7,043	6,975
Total	**390,736**	**395,172**

Arkansas[2]	**2016**	**2020**
Craighead	27,576	29,585
Crittenden	13,859	13,266
Cross	3,795	3,418
Greene	11,458	11,928
Jackson	3,403	3,220
Lee	1,557	1,285
Mississippi	11,461	10,576
Poinsett	5,460	5,175
St. Francis	5,591	5,012

[1] 2015 Revised UTCBER Population Projection Series
[2] A. Wiley, Demographic Research, UALR Institute for Economic Advancement, August 2016

Woodruff	1,294	1,106
Total	**85,454**	**84,571**

Mississippi[3]	**2015**	**2020**
	0-19	**0-19**
De Sota	55,006	59,094

[3] Center for Policy Research and Planning, Mississippi Institutions of Higher Education, February 2012